FINANCIAL TIMES

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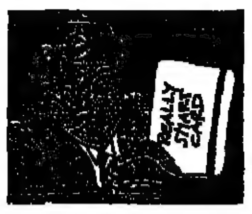

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WORLD NEWS

India and Pakistan pledge co-operation after summit talks

India and Pakistan are to step up efforts to solve bilateral disputes following the first visit by an Indian prime minister to Pakistan in a decade. They plan talks on security to build confidence following their nuclear test blasts last year and will give each other advance warning of any ballistic missile tests. **Page 14; Journey to reconciliation, Page 3**

Clash looms over bananas
Washington and Brussels prepared for another clash over bananas at the World Trade Organisation as the US signalled its intention to go ahead with trade sanctions against European goods. **Page 4**

Turkey rejects EU advice
Turkey said the European Union had no right to tell it how to try Abdullah Ocalan, the captive leader of the PKK Kurdish guerrilla group. **Page 2**

Cook in appeal to Spain
Britain and Spain discussed the latest crisis over Gibraltar. British foreign secretary Robin Cook appealed to Madrid to end long border checks for travellers from the British colony. **Page 4**

Blair acts over S Africa deal
UK prime minister Tony Blair wrote to the leaders of Spain, France and Italy to urge support for a planned trade agreement between the European Union and South Africa that faces collapse. **Page 2**

Ukraine faces debt renegotiation
Ukraine may have to renegotiate part of its external debt servicing if a loan from the International Monetary Fund is delayed beyond March, finance minister Ihor Mitiukov said. **Page 4**

Malaysian opposition pact
Malaysia's two strongest opposition parties said they would co-operate to try to unseat the ruling UMNO party of prime minister Mahathir Mohamad in the next general election. **Page 3**

Iran blames Iraq for killing
Iran said Iraq was responsible for the killing of a senior Shia cleric in Iraq and said the murder was part of Baghdad's persecution of Moslem Shias. **Page 4**

Canosa's son to head exile group
The largest Cuban exile opposition group is set to elect the son of its late leader, Jorge Mas Canosa, to succeed his father, reaffirming its hardline stance against President Fidel Castro. **Page 4**

Cuba may cut US phone links
Cuba said it would sever most of its direct phone links with the US if US phone companies did not immediately settle payments arrears. **Page 4**

PDP takes lead in Nigeria poll
Early results from Nigeria's senate and assembly elections gave a strong lead to the People's Democratic party. **Page 4**

Congo's government dissolved
Congolese president Laurent Kabila, back from a trip to Sudan and Saudi Arabia, dissolved his government and said he wanted to promote national unity, democratisation and reconstruction.

Woman drowned in flood
A woman drowned in France and shipping traffic was halted on the River Rhine after rain and melting snow caused flooding in France, Germany and Switzerland. **Weather reports, Page 14**

BUSINESS NEWS

UBS to integrate its global operations in move to cut costs

UBS, the biggest bank in continental Europe, plans to integrate its worldwide operations to cut costs and underline group unity. It will mean less independence for its Warburg Dillon Read investment banking and UBS Brinson asset management arms. **Companies and Markets, Page 15**

Unilever, the Anglo-Dutch consumer group, is close to announcing its first stock buy-back programme. **Companies and Markets, Page 15; Lex, Page 14**

Air France shares are expected to surge on their first day of trading in Paris today. The tranche for small investors was subscribed more than 12 times. **International companies, Page 18**

United Technologies industrial group is today expected to announce the acquisition of Illinois-based aerospace components maker Sunstrand in a deal likely to be valued at $4bn. **Companies and markets, Page 15**

The World Trade Organisation has hit the aerospace industries of Canada and Brazil by ruling that their government support programmes constitute illegal subsidies. **Trade, Page 5**

Morgan Stanley Dean Witter's two top executives had pay packages close to $17m each for guiding the securities firm safely through last year's market turbulence. Philip Purcell is chairman and joint chief executive officer, and John Mack, president and joint chief operating officer. **Companies and Finance, Page 18**

Hyundai Electronics' planned takeover of chipmaker LG Semicon has stalled and mediators are to try to resolve a dispute over financial terms. The merger is centrepiece of South Korea's corporate restructuring programme. **Companies and Finance, Page 18**

Toyota Motor could sell shares in subsidiaries to compensate for an estimated Y300bn ($2.5bn) shortfall in pension reserves. It wants the Japanese government to allow companies to use cross-shareholdings as pension reserves. **Companies and Finance, Page 18**

Hubco, Pakistan's flagship private power project, will have to reschedule $500m in commercial debt as a result of its dispute with the government on corruption and electricity pricing. **Companies and markets, Page 16**

Brazil formally moved into recession at the end of last year as the high interest rate policy aimed at preventing a currency crisis caused the economy to show its worst annual growth record since 1992. **Page 4**

BP Amoco led creditors who have appointed their choice of a bankruptcy administrator to manage Russian oil giant Sidanco. They overruled the alternative candidate initially appointed by Vladimir Potanin, whose Interros group is Sidanco's largest shareholder. **UK companies, Page 16**

William Hill, UK betting shop chain, scrapped its planned public offering after Japanese bank Nomura decided to sell it to two private equity firms for £825m ($1.3bn). **UK companies, Page 16**

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Olivetti bid 'unacceptable' says Italian phones group

Telecom Italia to fight $58bn offer

By Paul Betts in Milan and James Blitz in Rome

Telecom Italia, Italy's privatised telecommunications group, yesterday rejected a L102,000bn ($58bn) hostile takeover bid by its much smaller Italian rival Olivetti, setting the scene for one of Europe's biggest takeover battles.

Telecom Italia said the offer was unacceptable and not in the interests of its 1.5m shareholders.

Olivetti, the information technology and telecommunications group that staged a remarkable recovery after near-bankruptcy two years ago, announced the bid on Saturday after a dramatic series of board meetings.

It plans to offer €10 ($11.20) a share in cash, bonds and equity for all outstanding shares of Telecom Italia, a company five times its size.

The proposed offer is a 10.5 per cent premium on Telecom Italia's closing share price on Friday and was widely regarded by financial analysts as low. The market is expecting a sharp rise in Telecom Italia shares today in the belief that the developing takeover battle will drive the shares higher.

Olivetti rushed out the details of its proposed bid on Saturday in an effort to prevent Telecom Italia taking defensive action. Under Italian takeover rules, a company cannot introduce poison pill defences once it is subject to a formal takeover.

Before it can launch its formal offer, Olivetti needs to secure Italian government agreement on a number of issues, including the sale of Olivetti's existing telecommunications interests.

The government also still holds a "golden share" in the company.

Telecom Italia is challenging Olivetti's claim that its announcement was tantamount to a full bid and is taking legal action.

Franco Bernabe, Telecom Italia's new chief executive, is expected to unveil his strategic industrial plan for the group this week in a further effort to fend off Olivetti.

Telecom Italia is also considering several other options, including engineering its own friendly takeover.

Roberto Colaninno, Olivetti chief executive, yesterday said Telecom Italia offered a rare investment opportunity to match his company's ambitions to develop in telecommunications. He also said his bid would ensure Telecom Italia would remain under Italian control.

The privatised group has been regarded as a potential takeover target because of its fragmented shareholding structure.

The Italian government still owns a 3.4 per cent stake in the company, which it plans to sell soon.

The Treasury has so far adopted a wait and see attitude to the developing battle over Telecom Italia in spite of initial favourable comments to the Olivetti bid by Massimo D'Alema, the Italian prime minister.

Mr Colaninno confirmed yesterday Olivetti intended to finance its highly leveraged bid by selling its Omnitel and Infostrada telecoms interests to its German partner, Mannesmann. Olivetti also intended to dispose of Telecom Italia's non-strategic assets such as the company's property interests and part of its controlling stake in Telecom Italia Mobile.

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German bank chief fears effect of fall in euro exchange rate

By Wolfgang Münchau, Alan Beattie and Robert Chote in Bonn

Hans Tietmeyer, president of the Bundesbank, has hinted that the European Central Bank would be worried if the euro fell further against the dollar, as the ECB came under further pressure to boost European growth.

Speaking after a meeting of Group of Seven finance minsters and central bankers on Saturday, he said: "The euro is certainly not overvalued. What matters is that the euro earns a position of confidence in the long run."

Mr Tietmeyer's comments came after Oskar Lafontaine, German finance minister, said the euro was neither strong nor weak at present. The euro closed at $1.1096 last week, 5 per cent weaker than at its launch in January.

Meeting in the historic Petersberg hotel near Bonn, the G7 noted that the outlook for world growth had deteriorated since their last statement in October.

"We remain committed to a domestically based growth strategy that would contribute to achieving more balanced growth among our countries",they said.

Having been criticised for doing too little to boost their economy at previous G7 gatherings, Japanese officials were gratified to receive praise for their structural reforms and expansionary macroeconomic policy.

Europe took the brunt of the pressure this time, with Robert Rubin, the US Treasury secretary, arguing that the euro-zone had to play "a much larger role" absorbing exports from the recovering economies in Asia.

Mr Lafontaine hinted at his dissatisfaction with euro-zone interest rates. He noted that US real interest rates had fallen to 0 per cent in the recession of the early 1990s, far below the lowest level of European real interest rates over the last 20 years.

But Wim Duisenberg, the ECB president, told the meeting that euro-zone interest rates were "appropriate and at the moment sufficiently accommodating".

The communiqué said that the G7 would "maintain strong co-operation to promote stability of the international monetary system and to promote exchange rates among major currencies that are in line with fundamentals".

Analysts predicted that the G7's stance would endorse the dollar's recent strengthening trend by default.

The meeting backed plans by Mr Tietmeyer to create a "financial stability forum" that would bring together central banks, finance ministries and regulators in regular meetings.

There was agreement that the scheme to reduce the debts of highly indebted poor countries should be improved. The G7 will consider whether the generosity of relief should be increased and the policy track record required to qualify reduced.

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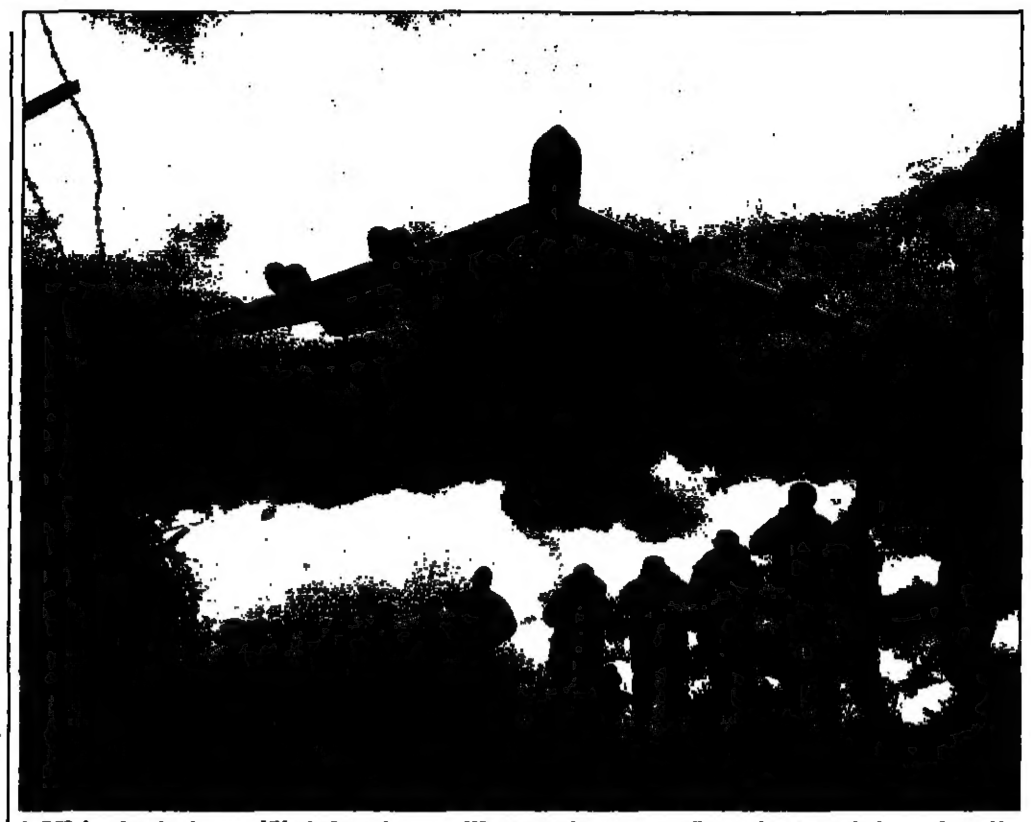

A B52 bomber lands at a UK air force base as US preparations for a strike against Yugoslavia continue. Nato countries have threatened air attacks if the Yugoslav and Serbian side torpedo peace talks. Page 14 Reuters

US hesitates over sale of $450m satellite to China

By Tony Walker in New York and Stephen Fidler in Washington

The sale of a $450m Hughes telecommunications satellite to China is on the verge of being rejected by the US administration, calling into question US satellite transfers to the Chinese worth billions of dollars.

An administration official, speaking on condition that he was not identified, said a final decision had not been taken but the chances of the transfer being approved were "on a steep downward trend".

This had implications for Chinese launches of US satellites, he said. "If this can't be approved, it's hard, to see anything being approved for China in the foreseeable future."

Hughes Space and Communications International, the California-based satellite provider, applied last April for export licences to supply the satellite to a Chinese-Singapore consortium and launch it on a Chinese Long March rocket. But the issue has become enmeshed in controversy over transfers of military-related technology to China. Clay Mowry, for the Satellite Industry Association, which represents the US satellite industry, said denying approval would amount to a "de facto ban on selling satellites to any entity with China ties".

Such a ban would have a "devastating" effect on the US satellite industry and put at risk billions of dollars in sales.

According to the US official, the decision would "turn the [Chinese] market over to the Europeans". Fourteen Chinese rockets have been reserved to launch US satellites over the next five years, out of 25 planned Chinese launches.

Richard Doré, communications director for Hughes Electronics, said Hughes's contract with consortium Asia-Pacific Mobile Telecommunications Satellite provided for termination of the agreement without penalty to the customer if the US company failed to achieve US government approval by last week.

But Mr Doré said Hughes hoped APMT would show patience.

The APMT consortium is 51 per cent-owned by Chinese interests, led by the China Telecommunications Broadcast Satellite Corporation. Sunburst Technologies of Singapore is another large shareholder.

The US intelligence community has harboured reservations about the sale of the Hughes HS GEM satellite because of concerns it will facilitate a Chinese leap forward in telephone communications and improve Chinese military command and control.

However, the main reason approval had been held up was not because of the satellite but because of concerns about the launch. China has never launched this model before and, to put it in orbit with precision, potentially sensitive launch information – of possible use in China's missile programme – must be passed to the Chinese.

A congressional select committee will soon make public a report recommending stiffer security procedures governing transfer of satellites to China.

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Euro-zone target price €2.10. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr295	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn18.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr18.00	Latvia	Ls1.85	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FmK13.00(€2.19)	Lebanon	LBP6,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dir16.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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Success of Rambouillet talks far from guaranteed

By David Buchan, Diplomatic Editor

The Rambouillet talks on Kosovo go into extra time with the issue of a Nato-led peacekeeping force still unresolved, divisions among the Contact Group of mediating countries emerging, and therefore success by the new deadline of 3pm tomorrow not at all guaranteed.

When the six-nation Contact Group decided to extend the talks by a further three days, Madeleine Albright, the US secretary of state, warned that a political accord on Kosovo self-government without an accompanying agreement on a foreign military force to implement it was "a complete non-starter for us". But hours later, at a Saturday night press conference in Paris, the unyielding attitude of Belgrade to foreign troops was underlined by Milan Milutinovic, the Serbian president.

Despite suggestions from some mediators of foreign troops coming into Kosovo under the auspices of the United Nations rather than Nato, Mr Milutinovic claimed to see "no circumstances" in which Yugoslavia would allow foreign troops in. What other guarantees could Yugoslavia offer the international community on autonomy for Kosovo's majority ethnic Albanians? he was asked. "Why should we offer anything?" he replied. "We are a sovereign country."

However, the Serb president turned emollient in suggesting that if Belgrade got the political agreement with the Kosovo Albanians that it wants, then "to a certain extent" other issues like implementation, possibly with foreign forces, could be discussed.

Equally, however, Mr Milutinovic dismissed the utility of foreign troops even if Belgrade consented to their presence. The problem, he said, was to contain "terrorist sniping" from the Kosovo Liberation Army (KLA), not to patrol some line of partition as Nato is doing in neighbouring Bosnia. "Why do we need 28,000 troops [the number of peacekeepers Nato plans to dispatch to Kosovo] to chase terrorists?"

The Contact Group remains generally united on the need for a peacekeeping force to underpin a political settlement, or as Mrs Albright put it, "the legs to hold up the table". The debate within the Contact Group has rather been over what extent the Serb refusal so far to countenance foreign troops on its soil should be allowed to eclipse all else.

Robin Cook, the UK foreign secretary, yesterday hailed as "a quite remarkable breakthrough" Serbian acceptance of substantial Kosovo autonomy. Lamberto Dini, Italy's foreign minister, claimed it would be "wrong to put all the blame on the Serbs, when the Albanians are still insisting on a referendum" on independence when the planned interim settlement comes up for review in three years time. The Contact Group plan rules out Kosovo independence as destabilising for the region.

For her part, Mrs Albright was back at the Rambouillet talks yesterday hoping to cajole at least the Albanians into accepting a political agreement by tomorrow. The US's final gambit is to use Albanian acceptance to put pressure on Yugoslav President Slobodan Milosevic, precisely because it would pave the way for Nato air strikes on Belgrade.

EU ministers spell out differences

By Peter Norman in Luxembourg

European Union foreign ministers yesterday spelt out for the first time the vital national interests that threaten to block agreement on the ambitious "Agenda 2000" reform of the EU's budget, farm and regional spending, making clear that a final agreement would be difficult.

Joschka Fischer, the foreign minister of Germany, which currently holds the EU presidency, acknowledged that none of the 15 EU delegations had compromised at yesterday's special foreign ministers' "conclave", to chart the Agenda 2000 negotiations in the remaining month before the special EU summit in Berlin on March 24-25. But he said the meeting provided a good basis for further discussion, starting with an informal gathering of EU leaders near Bonn next Friday.

The ministers discussed a first rough draft of the conclusions to be reached by the special Berlin summit. The document, put forward by Germany, was intended to give new impetus to the negotiations by identifying areas of agreement and divergence. However, as the ministers worked through the "negotiating box", differences surfaced more often than did agreement.

The French delegation reacted with hostility to the inclusion of national co-financing of agriculture as one of the possible ways of easing the EU's budgetary burden in the period from 2000 to 2006.

Robin Cook, UK foreign secretary, underlined Britain's determination not to give up its rebate negotiated in the 1980s. "There is nothing in the rest of Agenda 2000 that would compensate the UK for giving up the rebate," he said. "The case for the British rebate is as strong as it has ever been. Britain contributes more per head, even after the rebate, than other countries that are wealthier."

George Papandreou, the new Greek foreign minister, highlighted the resistance of Greece, Portugal and Spain to German suggestions that their income from the EU's "cohesion" funds should be phased out to help finance EU enlargement to the east. While a majority of countries have reached broad agreement that spending on agriculture should be stabilised around an annual average of €40.5bn ($45.6bn), the Greek minister demanded more.

An estimated 30,000 farmers are threatening angry demonstrations in Brussels today to persuade a meeting of agriculture ministers to continue high EU support for agriculture. But Mr Fischer said the majority of EU member states wanted tough budgetary discipline.

Blair plea on S Africa trade accord

Tony Blair, UK prime minister, has written to the leaders of Spain, France and Italy to urge their support for a planned trade agreement between the European Union and South Africa that is threatened with collapse after 3½ years of negotiation, write **Peter Norman and Guy de Jonquières.**

Led by Spain, several EU member states have raised objections to a compromise reached between the European Commission and South Africa last month in Davos. Spain, in particular, is unhappy that the plan to phase out the names "sherry" and "port" for South African fortified wines could contain a loophole leaving the terms in use on the domestic market after a 12-year transitional period.

These and other objections could result in EU foreign ministers failing to endorse the agreement at their meeting in Luxembourg today.

In his letter, Mr Blair said EU leaders last summer had promised President Nelson Mandela they would seek a rapid outcome to the trade talks. They have since set the Berlin summit in March as the deadline for conclusion of the negotiations.

"I believe that the EU's reputation is now at stake: we must be seen to honour our commitments," Mr Blair said. Warning that the negotiations had "reached a critical point", the prime minister said: "If the talks fail there will be serious political implications. The EU's relations with South Africa will be damaged and the EU will lose credibility."

Franco-German farms alliance falters

Paris is keeping the EU guessing in the battle to reform agricultural aid, writes **Michael Smith**

For nearly four decades, France and Germany have exercised an awesome grip on the levers of control in the European Union's Common Agricultural Policy. Where their governments have led, others have followed, and together the two countries have been the driving force in creating one of the world's most powerful farm aid regimes.

As EU farm ministers prepare for the start today of marathon talks aimed at agreeing fundamental CAP reform, the Franco-German farms alliance is under strain as never before. In some areas it appears to be breaking down.

The change has been sudden. Just months ago, Germany was the arch-opponent of farm reform. But its new left-led government has started to embrace change, leaving France exposed as the most vehement opponent of European Commission proposals while European farmers fight to preserve their subsidies.

France's desperation to avoid some of the more unpalatable ideas championed by fellow member states – particularly one that could force countries to foot some of the CAP bill directly – has prompted it to support cuts in farm aid.

Such an idea seemed almost unthinkable just weeks ago to most EU countries, France included. Now the idea is taking off and "degressive" direct aid payments, reducing over time, are likely to be part of the reform.

Cutting payments would be an extraordinary about-turn for the CAP, which has grown inexorably over 37 years and accounts for nearly half the EU budget. "This is a geological shift," says one EU diplomat. "It is how things sometimes happen in the EU. Look away for a minute and it has all changed."

Degressive payments have their roots in the differing aspirations of France and Germany in the "Agenda 2000" negotiations to reform farm spending, regional aid and budget financing in preparation for EU enlargement.

The Franco-German farms alliance goes back to the 1962 formation of the CAP, when efficient French farmers were provided with guaranteed export markets and the less productive Germans with high prices.

The loosening of the alliance follows Germany's election of a Social Democratic-Green administration less dependent on farm votes than its Christian Democratic predecessor. Also, Germany has staked its reputation as holder of the EU's rotating presidency on brokering an Agenda 2000 deal and is more willing to make compromises.

Furthermore – and most important – Germany wants a solution to its EU budget problems. It pays €11bn ($12.4bn) a year more into the union than it gets back. The main reason is that its farm sector plays a relatively small part in the economy and so receives relatively little from the CAP.

One remedy, supported by Germany, would introduce "co-financing" arrangements, under which countries would pay some of the income aid directly to farmers.

This is anathema to France, which would lose out financially. Its alternative – cutting the direct aids – would help freeze farm spending and tackle Germany's budgetary imbalance.

Paris proposes the biggest aid cuts, 3 per cent a year, for large cereal farmers which, in France at least, are highly efficient. It warns, however, that it can only agree the reductions if co-financing is ditched and that without such a commitment from other countries, it will block a farm deal this week.

French officials say its aid cut proposals put the lie to suggestions that it is adopting a nihilistic attitude to reform. French agricultural policy is changing, they say. It is more oriented towards developing rural communities and the environment.

However, other countries see France as the strongest opponent of the Commission's reform proposals in two of the three main sectors – milk, beef and cereals – where change is envisaged.

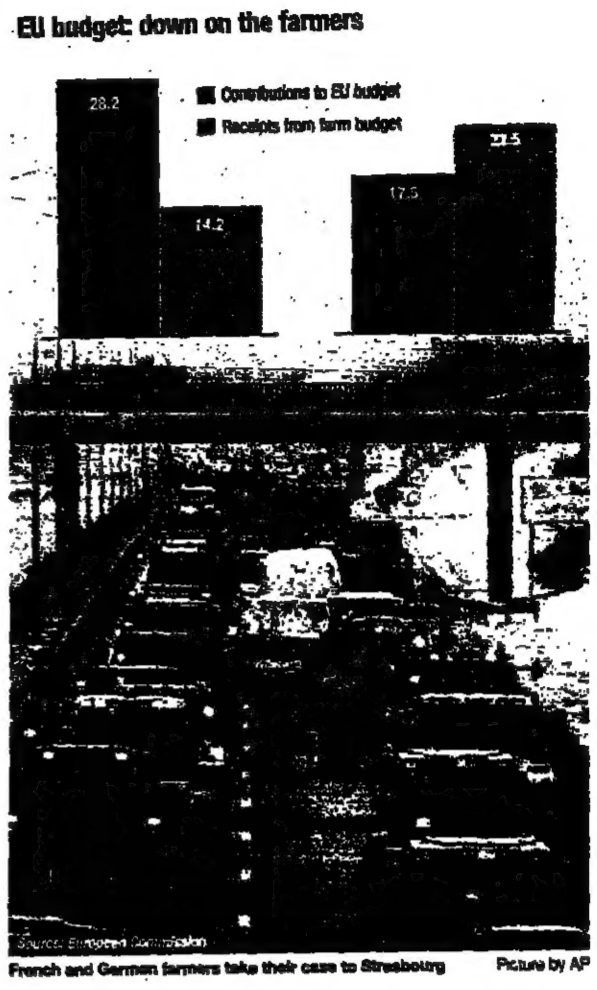
France's biggest problem is milk. It describes Commission proposals to increase production-limiting quotas and cut prices as "incomprehensible". Last autumn, Germany and France united to argue against milk changes but Bonn's position has shifted. Although it still formally opposes quota rises, it appears ready to heed other countries' calls for change.

France is among countries opposed to full implementation of Commission proposals on beef. While seeing the need for price cuts, it believes the 30 per cent suggested by the Commission is too much.

It is also at odds with Germany and most other countries over how the compensation for the price cuts should be allocated, with Paris favouring higher rewards for farmers of extensively-reared cattle allowed to roam the fields, and Bonn seeking more support for intensive rearing.

EU diplomats say France has weakened its negotiating stance by opposing so much and failing to go with the flow of other countries towards reform. "It is difficult to see what their game plan is," says one seasoned negotiator. "They always have one and usually it is very clever but so far we are still struggling to see what it is."

EU budget: down on the farmers



French and German farmers take their case to Strasbourg Picture by AP

Turkey hits out at EU 'lecturing'

By Leyla Boulton in Ankara

Turkey yesterday said the European Union had no right to lecture it on how to try Abdullah Ocalan, the captive leader of the PKK Kurdish guerrilla group.

In a reference to Germany, Bülent Ecevit, the prime minister, said: "Particularly those governments who have prevented their own judiciary from performing their functions, as a concession to PKK terrorism, are not entitled to give lessons in justice to any country."

Germany failed to act on its own arrest warrant and seek Mr Ocalan's extradition after he appeared in Italy last November.

Speaking on the eve of today's meeting of EU foreign ministers – at which Greece wants to discuss the Ocalan affair – Mr Ecevit also hinted that the EU had forfeited influence over Turkey by failing to give its application to join the EU equal weight to those of other applicants.

Ismail Cem, foreign minister, said he expected the EU instead to examine Greek "support" for terrorism, since it had sheltered Mr Ocalan until he was caught a week ago.

Mr Ecevit expressed hope that rather than question Turkey's ability to give Mr Ocalan a fair trial, western Europe would better understand from the violent nature of some protests "what we have been suffering for many years".

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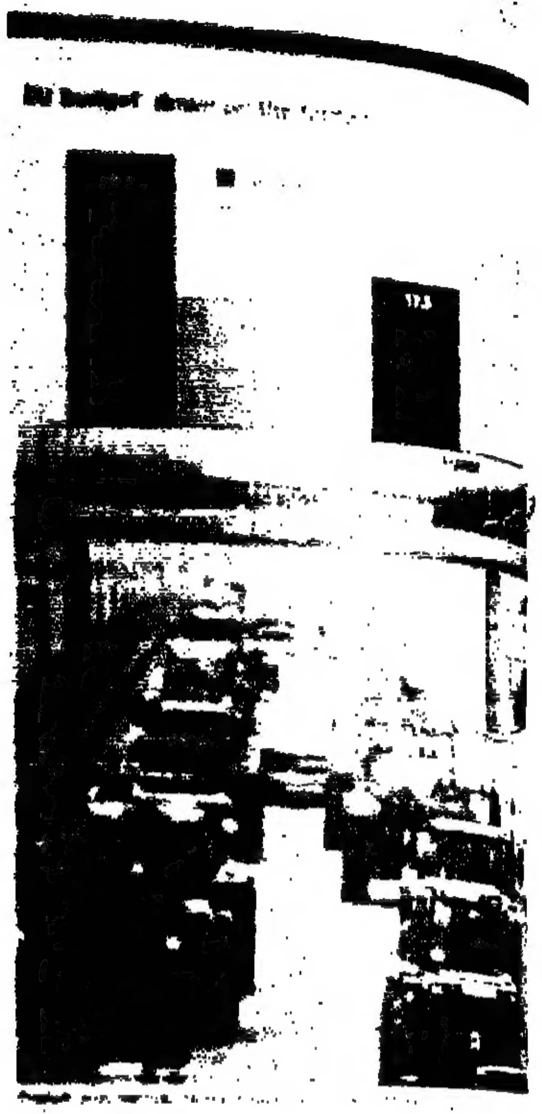

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ASIA-PACIFIC

US SATELLITE MAKERS CHINA'S LAUNCHING CAPACITY 'CRITICAL'

Rocket curb 'would hit US launches'

The China connection

By Stephen Fidler in Washington and Christopher Parkes in Los Angeles

With a secret congressional report investigating transfers of US technology to the Chinese military awaiting declassification, future launches of US satellites on Chinese rockets have been put in serious doubt.

US satellite makers say that stopping Chinese rockets from carrying US satellites into orbit would deliver a multi-billion-dollar blow to their business. Fourteen Chinese rockets have been booked over the next five years to carry US satellites. "With 1,200 satellite launches projected over the next decade and nearly all launch capability concentrated in only a handful of nations, China's capacity is critical," said Hughes, a leading US satellite maker.

It said five countries – the US, France, Russia, China and Ukraine – accounted for 97 per cent of satellite launches over the last 10 years. Last year, 52 per cent of US-made satellites were launched on France's Ariane, 15 per cent via Russian or Chinese launch vehicles and 30 per cent atop US launch vehicles.

But though Hughes and other satellite makers say Chinese launches are subject to rigorous security safeguards, the congressional report – product of a long investigation by a nine-strong House of Representatives panel – found the precautions inadequate.

One of its recommendations – some have already been declassified – is for Congress to pass legislation to "encourage and stimulate further" the expansion of US commercial space-launch capacity and competition. This would address security concerns by bringing the US industry home.

However, there is disagreement among space industry experts about whether the chief reason for using Chinese rockets is really a lack of capacity, or simply the lower cost. "Speaking personally, I'd say there is plenty of US launch capacity. The problem is pricing," said Joseph Padavano of Orbital Sciences Corporation, a Virginia-based specialist in smaller rocket and satellite technology.

Chinese rockets are so competitive not only because of low wage costs and legal liabilities, but because there are no capital costs to be covered. Chinese and Soviet rockets are derived from cold war-era military missile technology.

There are other factors. The Clinton administration's response to the Cox recommendations points out that telecoms companies, for example, often reserve flights with several international launch providers. This allows them greater schedule flexibility and is faster and less risky than relying on a single launch system, when one failure can lead to months of costly delay.

Space sector executives also say that the heavy-lift capabilities of China's Long March missiles have been important for manufacturers of advanced telecommunications satellites such as Hughes and Loral, which have won for the US a 45 per cent share of the world market for satellites.

Still, the US launch industry has gained ground and is expected to grow further because of big government-sponsored programmes, such as the Evolved Expendable Launch Vehicle (EELV), and a host of smaller entrepreneurial companies. The record 22 commercial launches last year raised US market share to 47 per cent, according to FAA figures. A further 25 are scheduled for this year, five times the 1994 total. Marco Cáceres, an analyst with the Teal Group based in Fairfax, Virginia, said there might not today be adequate launch capacity in the US. "But I think if you were looking at what's coming in the next five years, there will be."

Mr Cáceres forecasts growth in satellite launches levelling out for a few years, before expanding again in 2003. Three-quarters of the 1,017 commercial communications satellites he forecasts will be launched in the next 10 years will be in the 2003-08 period.

According to Michael Gallo, co-founder of Kelly Space & Technology, one of a handful of US companies created to build reusable launch vehicles, the best way for Congress to encourage further launcher development would be to approve investment tax credits and reduced capital gains levies.

Mr Gallo said the attitude of the Federal Aviation Administration, which regulates the launch industry, has been changing rapidly. "It's transforming itself into an organisation that will enable the industry to grow," he said.

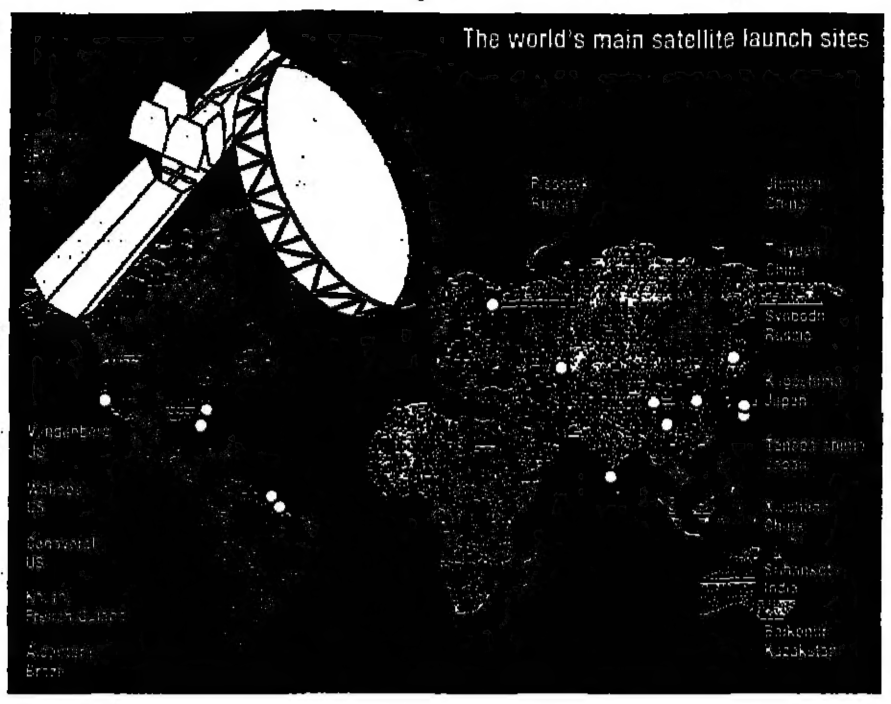
One example of this is its project to license a network of space ports, widening the availability of launch pads from coastal locations such as Cape Canaveral and Vandenberg air force base in California.

Candidate sites in Texas, Alaska, Nevada, New Mexico and New Jersey are jockeying for attention.

The FAA also has plans to reduce the time and cost burdens of exhaustive, costly flight tests, and shorten launch licence approval processes that can now take a year. The result, said Mr Gallo, would be dismemberment of a cumbersome, opaque system which has put off investors. But legislative and regulatory change takes time, and the space industry is loath to change proven business strategies while uncertainty prevails.

For now, say space industry executives, every available rocket is needed if the US is to maintain and extend its lead in the commercialisation of space. Cutting out even one Long March would simply hand valuable launch capacity to competitors.

Additional reporting by Tony Walker



INDIA-PAKISTAN SUMMIT

Leaders start journey to reconciliation

By Mark Nicholson and Farhan Bokhari in Lahore

The prime ministers of India and Pakistan missed few opportunities this weekend for warm rhetoric and political symbolism during the first visit by an Indian leader to Pakistan in a decade.

But now the bunting is being cleared and the brass bands have died down, the question is what real difference the summit has made to relations between south Asia's newly nuclear rivals.

Both Atal Bihari Vajpayee, India's prime minister, and Nawaz Sharif, his Pakistani counterpart, hailed the weekend summit as the most significant bilateral understanding since the 1972 Simla agreement, which patched up the wounds of their last armed conflict over Bangladesh in 1971.

However, both have also stressed the summit represents merely the start of a renewed political drive to resolve issues which have bedevilled relations since independence 51 years ago, rather than a breakthrough on any of these irritants – in particular the bloody and intractable dispute over Jammu and Kashmir.

"A good beginning has been made. The bus journey continues," said Mr Vajpayee yesterday at the minar-i-Pakistan monument in Lahore.

The Indian prime minister's visit to the monument, which commemorates the Moslem League's 1940 decision to create a separate Moslem state, was one of many choreographed moments of the summit. They began with Mr Vajpayee's inauguration of the first bus route between India and Pakistan since their partition in 1947.

Indian officials saw the visit to the monument as symbolising the acceptance of Pakistan's political legitimacy not only by India but, more pertinently, by Mr Vajpayee's Hindu nationalist Bharatiya Janata party, which is viewed with suspicion in Pakistan.

More broadly, Indian officials also characterised the summit as sending the message that "our nuclear weapons are not aimed at Pakistan and theirs are not aimed at us". Mr Vajpayee eloquently expounded India's peaceable intent in a speech yesterday on the lawns of the governor's mansion in Lahore. "We will never let war happen," he said to applause.

The main outcome of Mr Vajpayee's two-day visit includes promises to expand "confidence-building measures" deemed necessary – particularly by an anxious west – since the two countries' nuclear tests last May.

The two sides promised to engage in talks on "security concepts and nuclear doctrines", to offer advanced warning of any ballistic missile testing and take "immediate" steps to reduce risks of accidental use of nuclear weapons.

Otherwise, the two sides in their "Lahore Declaration" promised only to "intensify" efforts to resolve a raft of issues including border and water disputes and broader trade and visa access – the agenda items in a dialogue process begun after the tests.

But no firm dates have yet been fixed for talks nor for Mr Sharif's expected reciprocal visit to Delhi. Moreover, Mr Sharif reiterated his country's longstanding position that real progress could come only after a "final settlement" of the Jammu and Kashmir dispute.

Some commentators, warned that both sides must act swiftly to turn the weekend's goodwill in to tangible results.

Malaysian opposition in electoral alliance

By Sheila McNulty in Kuala Lumpur

Malaysia's two strongest opposition parties said yesterday they would co-operate to try to unseat the ruling UMNO party of the prime minister, Mahathir Mohamad, in the next general election.

Together the parties could present a formidable challenge to UMNO.

The PAS and DAP parties have long been at opposite ends of politics. The all-Moslem PAS supports the formation of an Islamic state while DAP is largely Chinese and insists Malaysia must remain secular.

But they have been united throughout Malaysia's political crisis in their belief that Dr Mahathir must be ousted for the sacking, jailing and police beating of Anwar Ibrahim, who was deputy prime minister until September. Mr Anwar is now on trial on charges of committing sexual misdeeds and abusing his power to conceal them.

Mr Anwar insists the charges were fabricated to keep him from challenging Dr Mahathir.

The announcement of co-operation by PAS and DAP came in the form of an agreement to participate in the efforts of the wider Coalition for People's Democracy, or *Gagasan* as it is called in Malay, to run for elections as a political party. Members of Barisan Nasional, the coalition led by UMNO, have been trying to keep the parties from uniting by pointing out their key differences.

But Fadzil Noor, PAS president, told reporters their differences could be set aside: "What is important is to defeat Barisan Nasional."

PAS has tried to cast aside its fundamentalist image in recent months in hope of winning over the vast number of Malaysians who, though angry at UMNO, fear PAS could impose Islamic law if it wins. It even told reporters yesterday it would support Mr Anwar's wife, Wan Azizah Wan Ismail, if she chose to run despite reports that it has never permitted females in its political hierarchy. Dr Wan Azizah has indicated she might challenge Dr Mahathir for his parliamentary seat.

The general election must be held by April 2000 but political analysts suspect it will be called this year, though that could depend on how well UMNO does in the Sabah state election to be held in March. They believe the outrage sparked by the treatment of Mr Anwar might well cost the UMNO coalition the two-thirds majority held in Parliament for the first time since 1969.

Iran blames Iraq for killing of Shia cleric

By Roula Khalaf in London

Iran yesterday held Iraq responsible for the killing of a senior Shia cleric in Iraq and said the murder was part of Baghdad's persistent persecution of Moslem Shias.

Ayatollah Ali Khamenei, Iran's supreme leader, issued a statement condemning the killings on Friday of Ayatollah Mohammed Sadeq al-Sadr and his two sons.

"Baghdad will be held accountable to the entire world, especially Moslem countries, for what has been happening in Iraq," he said. "The oppression of Shias in [Iraq] has reached its peak now."

Iraqi authorities said that the assassination in the southern holy city of Najaf was part of a conspiracy against the Baghdad government and that it was designed to create internal unrest. The government said the killers had been arrested. It denied reports that demonstrations had taken place in Najaf and a suburb of Baghdad.

Reporters taken to Saddam City on the outskirts of the capital where clashes were reported on Saturday said the streets they visited appeared quiet. However, they were not allowed to speak to residents.

According to Shia groups in London, the ayatollah's death triggered the most serious spontaneous protests since 1991, when the regime crushed a Shia uprising.

Ayatollah al-Sadr was considered one of the highest-ranking religious authorities in Iraq. Although he was seen as having been co-opted by the government after 1991, he seemed to be developing a large following in recent years, and was showing growing signs that he wanted to be independent. Shia sources said yesterday he had sent envoys abroad a few weeks ago to tell them that he felt his life was in danger.

Four Shia ayatollahs have been murdered in Iraq since 1994 and a fifth escaped an assassination attempt last month. The killings serve only further to alienate the Shia community, which makes up more than half of Iraq's population.

But Youssef Khoei, director of the largest Shia foundation in Europe, said the regime's strategy appeared to be to eliminate any potential leader who could mobilise an opposition, and justify massive arrests which he expected would follow the latest killings.

The Iraqi regime yesterday also said its forces had hit a western warplane patrolling the southern no-fly zone, set up after the Gulf war to protect the Shias.

The US and Britain, which patrol the southern and northern no-fly zones, denied the report and said all their aircraft had returned safely to base.

Since last December's four-day US and British air raids, Iraq has stepped up its challenge of the exclusion areas, which it considers illegal, drawing almost daily retaliation.

Baghdad has also threatened to target bases in neighbouring Kuwait and Saudi Arabia used by US and British patrols.

Brazil's high rates bring recession

By Geoff Dyer in São Paulo

Brazil formally moved into recession at the end of last year as the high interest rate policy aimed at preventing a currency crisis caused the economy to show its worst annual record of economic growth since 1992.

Gross domestic product fell 1.89 per cent in the fourth quarter compared with the same period the year before, the second consecutive quarter of negative growth.

As a result, the economy grew by just 0.15 per cent in 1998, the worst result since the 0.54 per cent decline in 1992 and down from the 3.68 per cent growth of the year before.

Interest rates were kept high throughout the fourth quarter in an attempt to beat back speculative pressures on the currency in the wake of the Russian debt default in August.

However, the government was forced to let the currency float in January, prompting a devaluation of 38 per cent against the dollar by Friday's closing price of R$1.94. With interest rates currently 39 per cent, monetary policy is now being kept tight to reduce the inflationary impact of the devaluation.

Economists are predicting a fall this year of between 3 and 6 per cent in GDP, although some believe the economy could start growing by the end of the year. According to Chip Brown, economist at Morgan Stanley Dean Witter in New York, the economy will shrink 7.5 per cent in the first quarter and 4 per cent over the year as a whole.

However, the government is optimistic that the devaluation will allow exports to expand and imports to decline sharply.

According to Sergio Amaral, the presidential spokesman, the government is forecasting a trade surplus this year of $6bn-$7bn, compared to a deficit of $6.4bn in 1998.

Intel's turn to come under the FTC spotlight

The world's largest chipmaker faces antitrust charges, say **Louise Kehoe** and **Richard Wolffe**

Andrew Grove (left) and Craig Barrett, chairman and chief executive respectively of Intel, due to appear for world's biggest chipmaker AP

Even as executives of Microsoft squirm in one Washington courtroom, another titan of the high technology industry is preparing to face charges that it too has abused its market power to quash competition.

On March 9 Intel, the world's largest chipmaker and Microsoft's long-time partner in the personal computer market, is scheduled to appear on antitrust charges before a judge appointed by the Federal Trade Commission.

That two of the best known companies in the high technology sector will be simultaneously on trial, just across the road from each other, may be a coincidence in timing. Yet it is clear that US antitrust enforcers are determined to demonstrate that this rapidly growing sector of the economy is not untouchable.

"Applying the antitrust laws to high-tech industries is important in order to secure for consumers the benefits of the innovation that drives economic growth," William Baer, director of the FTC's Bureau of Competition, told a recent gathering of lawyers in San Francisco. "Neither the rate of innovation in those industries nor the pervasiveness of intellectual property rights is an argument for antitrust enforcers to withdraw."

Indeed, intellectual property rights are at the heart of the FTC's case against Intel. The chipmaker stands accused of using its dominance in the microprocessor market to bully three large customers into handing over valuable technology in related fields to Intel. Disputes between Intel and Intergraph, Compaq Computer and Digital Equipment (now owned by Compaq) are the nub of the issue. These companies each filed lawsuits against Intel and in each case the chipmaker retaliated by threatening to withdraw early access to information about its future microprocessor products.

The FTC charges that this amounted to an abuse of Intel's market power, because computer makers need information about the next generation of Intel chips if they are to design them into new computer products and remain competitive. However, Intel will argue that it has the absolute right – protected by nothing less than the US constitution – to share its technology secrets with whoever it chooses, acting in the interests of the company and its shareholders.

The lawsuits threatened Intel's ability to profit from its intellectual property, its lawyers say, so the company was justified in its actions.

Witnesses for the FTC include several current and former executives from the three computer companies as well as executives from rival chipmaker Advanced Micro Devices and former Intel employees, some of whom now work for Intel competitors.

For its part, Intel has submitted a list of about 20 potential witnesses including Andrew Grove, chairman, and Craig Barrett, chief executive, and several other senior executives. But in a twist that signals Intel's defence strategy, the chipmaker will also present witnesses from its rivals in the microprocessor market including AMD, IDT and the Cyrix division of National Semiconductor.

Intel's goal is to demonstrate that its actions toward Intergraph, Compaq and Digital did not harm its competitors. Indeed, Digital, for example, turned to competing chipmakers for its microprocessor supplies when it fell out with Intel.

The FTC must prove Intel's actions harmed competition, rather than harming its customers, says Peter Detkin, Intel general counsel. The government must also demonstrate Intel is a monopolist. Intel says there is in fact healthy competition in the microprocessor market.

Price wars between Intel and its rivals have helped to drive down the prices of "basic" PCs to well under $1,000 over the past year, and nine out of the top 10 PC manufacturers buy some of their microprocessor chips from Intel competitors.

However, the FTC points to Intel's high profit margins to suggest that the company does not face effective competition. Moreover, the government agency will argue that Intel's market dominance has dissuaded other companies from attempting to compete, thus harming the "microprocessor innovation market".

In contrast to the Microsoft antitrust trial, where embarrassing e-mail records and unflattering videotaped depositions have undermined its credibility, the Intel trial is likely to come down to an argument over points of law. "Intel does not write the same kind of e-mails that Microsoft does," said one lawyer close to the case. The FTC insists the Intel trial will be much more narrow in its focus than the Justice Department's lawsuit against Microsoft.

Agency officials also contend that their case addresses Intel's conduct, rather than the structure of the industry or the company – as in the Microsoft case. And with the judge being appointed by the agency, they may well score a hit until Intel can take the matter to a higher court.

However, the case does have broad implications for the high technology sector because it may redefine how dominant companies can use their intellectual property to competitive advantage.

Overall, the FTC has deep concerns about Intel's entrenched position within the computer industry and its "broad" investigation of Intel's business practices is continuing. Robert Pitofsky, FTC chairman, is particularly alarmed by the prospect of "bottleneck monopolies" which could restrict access to new markets and establish a stranglehold on future innovation.

By charging Intel with antitrust violations the FTC also wants to win the trust of the industry to encourage whistle-blowers in case of future transgression. For the FTC the case against Intel marks a line in the sand.

Cuba threatens to cut phone links with US

By Pascal Fletcher in Havana

Cuba has announced it will sever most of its direct phone links with the US this week if US phone companies do not immediately settle payments arrears.

The move, only days after Cuba announced tough new legislation against what it says is a growing threat of US-backed subversion, appears to indicate a hardening of the communist-ruled island's already defensive stance towards its northern neighbour.

The US last month announced carefully calibrated alterations to its long-standing economic embargo against the Caribbean island. Since then, the level of anti-US rhetoric emanating from Havana has increased sharply.

Cuba said it "fully backed" a decision by ETECSA, the Cuban telephone company, to cut phone circuits to the island operated by five US telecommunications companies next Thursday.

A Cuban statement said the cut-off would occur if these five companies – AT&T Corporation, MCI WorldCom, LDDS Communications, IDB Communications and WilTel – did not "immediately" hand over to ETECSA payments they were withholding for phone calls made in December.

Phone circuits operated by two other US companies, Sprint International and Telefónica Larga Distancia of Puerto Rico, would remain open as these two had fulfilled their payment obligations to ETECSA, the statement said.

The dispute, which poses a sensitive political dilemma for the US government, has arisen out of a court case involving the families of four Cuban-American pilots whose small US-registered aircraft were shot down off Havana by a Cuban fighter nearly three years ago.

The pilots' families are seeking to seize the phone payments due to Cuba to make up at least part of $187m compensation for wrongful death awarded to them by a US district judge in 1997. The same judge, James Lawrence King, is now due to rule on whether the phone payments can be used as compensation.

The US government agrees with the Cuban government that ETECSA should receive the scheduled phone payments, which have been made since 1994.

US officials argued that maintaining phone links with Cuba was central to the US policy of increasing bilateral "people-to-people" contacts, while keeping basically intact long-running economic sanctions against the Cuban government. The January 5 recalibration of this "two-track" embargo policy – presented by Washington as an easing of the embargo – seems to have infuriated Cuban President Fidel Castro.

He and other Cuban leaders have rejected as "subversive" and "a fraud" recent measures announced by US President Bill Clinton, which include wider approval for flights and cash remittances to Cuba, plans for a direct postal service and authorisation for possible sales of US food and farm supplies to private individuals and non-government entities on the island.

Canosa's son set to head exile group

The largest Cuban exile opposition group is set to elect the son of its late leader, Jorge Mas Canosa, to succeed his father, reaffirming its hardline stance against President Fidel Castro's government and further reducing the chance of a change in US policy towards the island, **Richard Lapper and Henry Hamman report from Miami.**

Mr Mas Canosa Senior built the Cuban American National Foundation (CANF) into one of the most powerful political lobbies in the US. Since his death last year, however, the rightwing foundation has appeared to lose influence in Washington.

News of his son's succession, which is expected to be confirmed at a meeting of CANF, follows a draconian clampdown on political opposition within Cuba last week. President Castro imposed tough new penalties on political dissidents, confirming the government's hostile response to a modification of the US embargo in January.

Domingo Moreira, a member of the CANF's executive board, said the election of Mr Mas Canosa would help increase the foundation's appeal to a younger generation of Cuban Americans. "I think he's quite effective and will assume the leadership role," he said. Mr Mas Canosa is head of Mastec, a publicly traded telecommunications company.

CANF draws its financial support from wealthy Cuban exiles and has used its financial clout and lobbying expertise to dominate US policy towards Cuba.

NEWS DIGEST

CLASH LOOMS WITH EU OVER BANANAS

US prepares to go ahead with trade sanctions

Washington and Brussels have set the stage for another bitter clash over bananas at the World Trade Organisation early next month as the Clinton administration signalled its intention to go ahead as planned with trade sanctions against European goods. The US has asked for a special WTO meeting on March 3 to authorise retaliation against the European Union, in line with pledges to the US Congress to impose sanctions by that date.

Its request will be based on the decision, due on March 2, of a WTO panel charged with arbitrating on the US claim for $520m of punitive tariffs on a wide range of European goods. The US argues that under WTO rules authorisation cannot be refused. However, EU officials said at the weekend it was possible the arbitrator's report would be inconclusive in the absence of a WTO decision on the legality of the EU banana import regime.

The same WTO panel has until April 12 to decide if the EU's amended banana import arrangements which came into effect on January 1 comply fully with earlier WTO rulings. The previous scheme, which, like the present one, favours bananas from African, Caribbean and Pacific countries, was judged to discriminate unfairly against Latin American bananas and US banana distributors.

In a related counter-move, Brussels has requested a meeting of the WTO's dispute settlement body on March 2 to establish a dispute panel to examine Section 301 of US trade law. Brussels says Section 301 is being used in the banana dispute to authorise unilateral – and thus illegal – US trade measures. Washington says its retaliation procedures under Section 301 are in line with WTO rules. **Frances Williams, Geneva**

NIGERIAN ELECTIONS

PDP has strong lead

Early results from Nigeria's senate and national assembly elections at the weekend gave a strong lead to the People's Democratic party (PDP), a coalition of establishment figures from across the country. With more than half the results in, the PDP was leading with 145 seats in the House of Representatives.

The Alliance for Democracy, a regional party from the south-west, had 70 and the All People's party 28. The ratio was roughly the same for the senate and was in line with earlier state and local government elections in which the PDP came out with a strong showing in a first-past-the-post system but with around half the popular vote.

The result appeared to confirm that the two other parties which have presented a joint candidate for the presidential poll to be held this Saturday – Olu Falae, a former finance minister – still have an outside chance in the presidential race against the former military ruler, Olu Segun Obasanjo.

The vote over the weekend was the penultimate stage in a phased transition to democracy designed to bring an end to a 15-year succession of military regimes by a scheduled handover in May. Election observers said voting was orderly, with few reports of malpractice, but they said turnout was low. **William Wallis, Lagos**

UKRAINE'S EXTERNAL DEBT SERVICING

Worries over IMF loan delay

Ukraine may be forced to renegotiate part of its external debt service in 1999 if a loan from the International Monetary Fund continues to be delayed past March, said Ihor Mitiukov, Ukraine's finance minister.

He said he was confident the Ukrainian government and the IMF would agree on continued disbursement of the loan next month, which has been held up since November, because of Ukraine's failure to meet a number of conditions of the $2.2bn, three-year credit granted by the IMF last August. But if continued disbursements could not be agreed on, "we will be simply forced to begin negotiations with our external creditors," he said at the weekend.

The Ukrainian government owes $1.9bn in external debt service this year, along with 1.5bn hryvnia ($376m) in payments on domestic treasury bills, according to Mr Mitiukov. Rescheduling this debt service could trigger cross-default clauses in $1bn worth of outstanding eurobonds, due in 2000 and 2001, which would cause them to fall due immediately. **Charles Clover, Kiev**

GIBRALTAR CRISIS

Britain appeals to Spain

Britain and Spain discussed the latest crisis over Gibraltar yesterday, with Robin Cook, British foreign secretary, appealing to Madrid to end long border checks for travellers from the British colony.

"I expressed concern at continuing delays at the border," Mr Cook said after meeting his Spanish counterpart, Abel Matutes. He said he urged Spain to honour the European Union principle of free movement of people but could give no guarantees Spain would soon ease border checks at Gibraltar. He said more meetings would be held between British and Spanish officials.

This month Spain tightened border controls at the Spanish-Gibraltar border, and threatened to ban Gibraltar-bound aircraft from Spanish airspace and to stop recognising Gibraltarian driving licences. The dispute began over access by Spanish fishermen to waters around the British colony. **AP, Luxembourg**

DEATH SENTENCE ON GERMAN

Iranian court orders retrial

The case of the German businessman Helmut Hofer, sentenced to death in January last year, has been referred back to a new court for retrial, according to Iran's official newspaper.

Mr Hofer was arrested in September 1997 following an alleged affair, which he has repeatedly denied, with a Moslem Iranian woman.

Citing judicial sources, the paper said Iran's supreme court had quashed the death penalty on Mr Hofer, a 57-year-old spice merchant, because of "inadequate reasoning" in the verdict reached by a lower court.

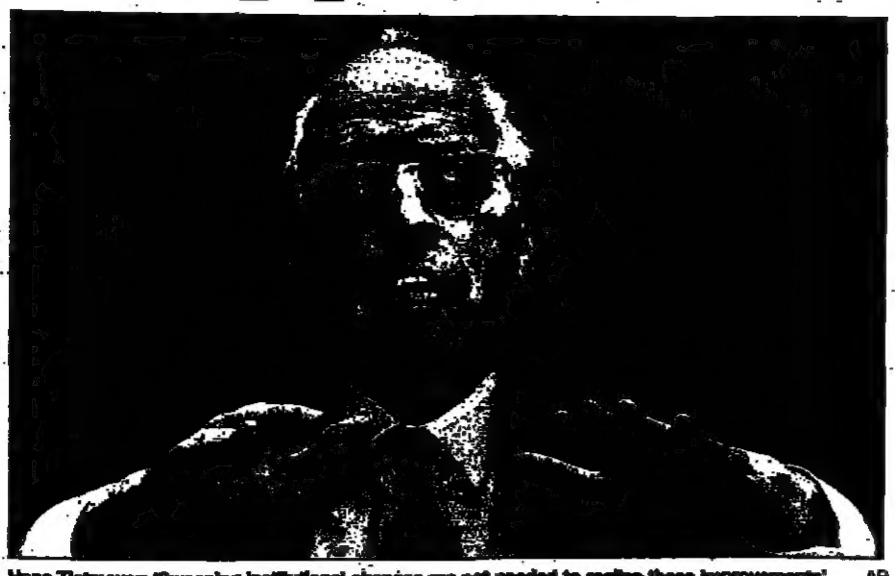
According to Agence France Press in Tehran, Germany's foreign ministry had not received any official confirmation of the supreme court's decision, and was unsure whether it was "definitive".

The Hofer case has aggravated German-Iranian relations, already strained by a German court verdict implicating senior Iranian officials from the intelligence ministry in the murders of Kurdish political dissidents in Berlin's Mykonos cafe two years ago. **Robin Allen, Dubai**

GROUP OF SEVEN ENDORSEMENT FOR TIETMEYER PROPOSALS TO BOOST SUPERVISION OF FINANCIAL SYSTEM

Forum to help prevent crises agreed

By Robert Chote, Economics Editor



Hans Tietmeyer: 'Sweeping institutional changes are not needed to realise these improvements' AP

Emerging market countries will be invited to join a "financial stability forum", bringing together finance ministries, central banks and financial regulators, the Group of Seven industrial nations said this weekend.

By strengthening surveillance and supervision of the international financial system, the forum is supposed to help prevent economic crises like those that have swept south-east Asia and other emerging markets over the last two years.

"While the forum will initially be the initiative of the G7 countries, we envisage that over time additional national authorities will be invited to join the process," the G7 said. International regulatory bodies will be involved from the start.

The proposal for the forum was drawn up by Hans Tietmeyer, president of the German Bundesbank. Finance ministers and central bank governors from the G7 formally endorsed it on Saturday, at their meeting in Petersberg, near Bonn.

Each G7 country will be allowed three representatives on the forum, one each from their finance ministry, central bank and "senior supervisory authority". The International Monetary Fund and World Bank will have two members each, as will the Basle Committee on Banking Supervision, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

The Bank for International Settlements, the Organisation for Economic Co-operation and Development, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System (formerly the Euro-currency Standing Committee), will each have one seat round the table, giving 35 participants in all.

The G7 said the committee would be chaired for an initial period of three years by Andrew Crockett, general manager of the Bank for International Settlements, the central bankers' bank in Basle. It will have a small secretariat there, reflecting Mr Tietmeyer's belief that "sweeping institutional changes are not needed to realise these improvements".

Mr Tietmeyer said the forum should begin by meeting twice a year, with the G7 agreeing that the first gathering should be held this spring. Robert Rubin, US Treasury secretary, warned that some details still remained to be worked out by G7 officials.

In the communiqué issued after the meeting, the G7 said the overall aim of the forum was "to ensure that national and international authorities and relevant international supervisory bodies and expert groupings can more effectively foster and co-ordinate their respective responsibilities to promote international financial stability, improve the functioning of the markets and reduce systemic risk".

Mr Tietmeyer said the forum would improve the pooling of information and help develop early warning indicators of crises. It was also important to encourage the development of international standards as well as to foster better in-house risk management in private sector financial institutions.

The G7 members also said they would continue to assess whether additional reporting and disclosure should be required of hedge funds and other highly leveraged investors. Mr Tietmeyer said the forum should assess "the need for the regulation of non-regulated entities", which include hedge funds.

G7 timetable for reform of the international financial system

By Spring 1999 meetings of IMF, World Bank and G7 in April:
- G7 compliance with IMF good practice code on fiscal transparency
- G7 report on strengthening national financial regulation, particularly of highly leveraged institutions
- IMF to complete manual for implementing fiscal transparency good practice code and to start monitoring code's implementation
- IMF (supported by BIS and others) to complete code of best practice for monetary and financial transparency
- IMF to strengthen data dissemination standards
- Early findings of BIS committees on disclosure standards for private sector financial institutions and international capital flows
- World Bank/IMF interim report on establishing insolvency and debtor-creditor regimes
- IMF to report on progress of its policy to lend to countries in arrears to their other creditors
- World Bank interim report on development of principles of best practice in social policy
- IMF to report on proposals for it and other international financial institutions to publish more information
- IMF to report on progress towards formal evaluation mechanism for assessing its own effectiveness

At G7 Spring meeting: Discuss progress on -
- Proposals to strengthen World Bank and IMF's Interim and Development Committees
- Examining scope for stronger prudential regulation in industrialised countries and emerging markets
- Considering necessary elements for maintaining sustainable emerging market exchange rate regimes
- Developing new crisis response, including new forms of official finance and ways to include private sector
- Strengthening IMF's crisis prevention and response procedure
- Policies to protect the most vulnerable in society

By OECD Ministerial meeting in May
- OECD to complete code of principles for sound corporate governance

By G7 Cologne summit in June
- G7 to convene first meeting of Financial Stability Forum
- G7 consensus on how to proceed on strengthening national financial regulation, particularly of highly leveraged institutions
- G7 consensus on how to promote more collective action clauses in bond issues

By end June 1999
- G7 to disseminate information on government and central bank foreign exchange liquidity position

By IMF/World Bank Annual Meeting in October
- IMF and standard-setting bodies to prepare strategy for implementing accounting, corporate governance, data and monetary and fiscal policy transparency standards. Joint paper on this by IMF and World Bank
- IMF to finalise structure for transparency reports

By end 1999
- G7 report on private sector compliance with corporate governance and accounting transparency standards

By January 2000
- G7 to comply with strengthened IMF data dissemination standard

Others
- G7 compliance with best practice code on monetary and financial policy transparency, once code is agreed
- IMF to continue policies of trade liberalisation, eliminating soft loans by states to favoured industries and non-discriminatory insolvency regimes

Currency zone split remains

By Alan Beattie and Wolfgang Münchau in Bonn

Finance ministers from the G7 failed at their meeting on Saturday to resolve their disagreement over currency target zones.

Oskar Lafontaine, the German finance minister, encountered familiar strong opposition from the US to the idea of setting trading bands for the world's large currencies. The communiqué agreed by the G7 finance ministers and central bank governors revealed there had been no change in policy, reaffirming the view that sound fundamentals were the key to exchange rate stability.

Participants at the meeting said the discussion was couched in general terms, with no specific system being mooted. Dominique Strauss-Kahn, France's finance minister, said that the debate had focused more on closer co-operation on currency stability. "No one wanted to push the idea once forwarded by our German hosts on target zones," he said.

But ministers agreed to discuss the issue again on March 11, leaving open the possibility that a concrete proposal will emerge.

Mr Lafontaine said after Saturday's meeting that while France and Japan supported the principle of bands to control currency movements, the US was opposed.

The issue has gained prominence in recent months after the French, German and Japanese finance ministers all called for a system of fixed bands as a means of controlling speculation in currency markets.

But the US is strongly opposed to the proposal, emphasising instead the need for sound fundamentals to promote currency stability.

Robert Rubin, the US Treasury secretary, said there had been a "very frank" discussion about different points of view regarding target zones. He was eager to point out that there had been no official policy change by the G7. The reference to exchange rate stability in the communiqué "reflects a continuation of current practice", he said.

Central bankers also expressed opposition to the idea of setting formal currency bands.

Mr Lafontaine acknowledged that Alan Greenspan, chairman of the Federal Reserve, had argued the idea would prove counter-productive as speculators tested the boundaries of the zones. And Hans Tietmeyer, president of the Bundesbank, expressed his opposition to target zones during the same news conference at which Mr Lafontaine was speaking.

The German finance ministry has recently developed a more modest proposal than a full-blown target zone system. The plan envisages that a large movement in exchange rates would trigger formal consultation among G7 central banks and finance ministers, rather than automatic central bank intervention in the foreign exchange markets.

WTO rules support illegal

By Edward Alden in Toronto

The World Trade Organisation has hit the aerospace industries of Canada and Brazil by ruling that key government support programmes in each country constitute illegal subsidies.

In a confidential interim report released to the governments last week, a WTO dispute settlement panel found that Canada's Technology Partnerships Canada programme is a subsidy contingent on export performance, which is prohibited by the agreement on subsidies and countervailing measures, according to a source familiar with the ruling.

A separate panel examining Brazil's Proex programme, an export financing subsidy that lowers costs for aircraft buyers, also violates WTO rules. The panel found that Brazil was improperly using Proex to offer financing at below prevailing international interest rates.

Trade officials in Brazil and Canada refused to comment on the WTO findings.

The rulings, which are still subject to change before the final panel decisions are released next month, could cause problems for Bombardier of Canada, the world's third largest civil aircraft maker, and Embraer of Brazil, its main competitor in the regional jet market.

Canada took Brazil to the WTO last year at the urging of Bombardier, which lost several large US aircraft sales to Embraer and charged that the Proex programme was responsible for Embraer winning those orders. Brazil challenged Canadian government supports for its industry.

Canada charged at the WTO that Brazil's Proex programme knocked 15-20 per cent off the delivered cost of Embraer's 50-seat regional jet, which competes directly with Bombardier's 50-seater. Brazil has committed almost $2.5bn in the past 24 months to foreign airlines that have signed orders with Embraer.

The Brazilian government has agreed to eliminate Proex for export to the Mercosur countries in South America. The International Monetary Fund is also understood to be demanding further cuts to Proex.

Technology Partnerships funding, which was boosted to C$300m (US$200m) annually in last week's Canadian budget, is targeted at the aerospace industry in the politically sensitive province of Quebec. The money is granted as loans that are repaid only if the product becomes successful.

US prepares to go ahead with trade sanctions

PDP has strong lead

Worries over IMF loan delay

Britain appeals to Spain

Iranian court orders retrial

SINGLE CURRENCY NATIONAL CHANGEOVER PLAN TO TELL OF THREE-YEAR GAP BETWEEN UK REFERENDUM AND ABOLITION OF STERLING

Public sector 'not prepared for euro'

By Robert Peston, Political Editor

The UK government will concede later this week that the public sector faces a more daunting and longer task preparing for the euro than the private sector, in an embarrassing admission that may undermine its calls on companies to invest for monetary union.

"There is a big problem at social security, the Inland Revenue and customs getting their computer systems ready," said a government member. "Our best guess is that it could take four years to get their IT up to scratch."

The national changeover plan, the official programme for introducing the euro, to be published this week, is understood to say the gap between a referendum vote to join the new currency and the abolition of sterling as legal tender should be around three years. This corresponds closely to the time needed by larger store chains and retail banks to convert their systems.

A minister said there was a need to invest at the social security department and the Inland Revenue "before we have made a formal decision to join" the euro.

There may also be widespread surprise when the plan is published that the government is keeping its options open on the gap between a decision to join and the locking of exchange rates, or the formal moment of UK euro membership.

Instead, the largely technical changeover plan concentrates on the process leading up to the introduction of notes and coins. Meanwhile, the Treasury has been advised it cannot invest the tens of million pounds required to update public sector payment systems without obtaining approval from parliament in the form of "paving" legislation.

A government member said there was unlikely to be a firm commitment to such legislation, since this would be widely regarded as a pledge to join the euro very shortly after the next general election, probably in 2001 or early 2002. "We are not ready to make that kind of commitment yet. But we will make clear that we will keep the issue under review and will not close off the idea of putting a bill through the House [of Commons]."

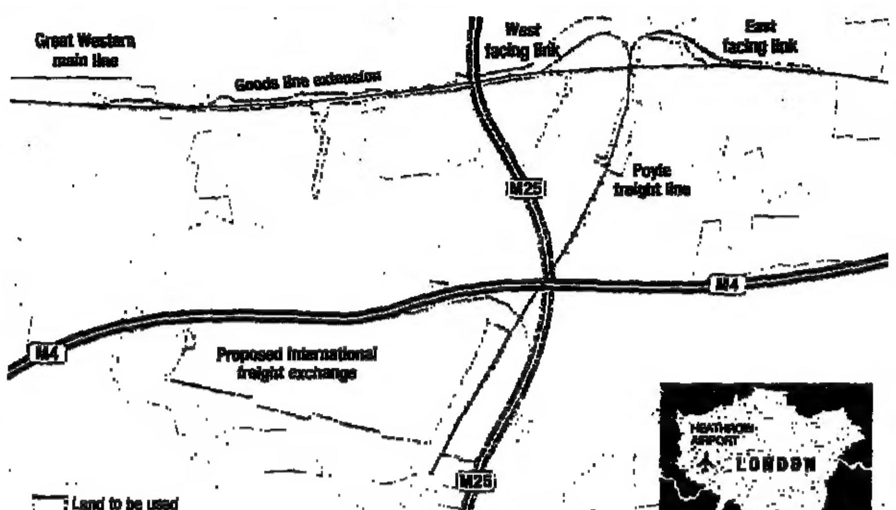
In a sign of the importance and sensitivity of the document, Downing Street yesterday refused to say whether the prime minister, Tony Blair, or the chancellor would be making a statement to the Commons when it is published.

Among the pro-European business lobby, there have been hopes Mr Blair would use the occasion to make a firmer commitment to join the euro. These are likely to be dashed. "The fundamental policy, that we will not join until after the election and until our economic conditions are met will not change," said a colleague of the prime minister.

The changeover plan spells out how long it would take to convert the currency from the moment the cabinet decides to participate in monetary union.

PLANNING SCHEME WILL EASE SHORTAGE OF RAIL TERMINAL SPACE IN SOUTH-EAST ENGLAND

Plan to build freight depot near Heathrow



By Charles Batchelor, Transport Correspondent

Plans for a £200m ($326m) rail freight terminal near London's Heathrow airport could run into objections because it would eat into the undeveloped "green belt" around London.

Argent, the property development arm of British Telecommunication's pension scheme, applied last week for planning permission to create a 500-acre freight terminal at the junction of the M4 and M25 motorways.

Although the site is in the green belt much of it is on former industrial land. Argent plans to landscape half the site. Strategic planning guidance for south-east England urges local authorities to be sympathetic to plans for rail freight depots, said Peter Freeman, an Argent director.

The terminal would make use of an existing freight line that connects to the Great Western main line to London. At present, there is no westerly connection but one would be built, allowing for the first time a direct rail link from Heathrow to western England and south Wales. The terminal, to be named the London International Freight Exchange, will consist of distribution warehouses with both road and rail connections. It has been designed to handle 28 freight trains a day and could remove the need for more than 30m miles of lorry journeys a year, Argent said.

But because the land is in the green belt it is expected that a public inquiry will be held, thus delaying the start of construction until summer 2000. It would then take about five years to fully develop the site.

If the project gets the go-ahead it would relieve a shortage of rail terminal space in south-east England and provide a link for air freight landing at Heathrow and the UK and continental European rail networks.

The terminal could service Channel tunnel freight trains as well as those running between northern England and the Midlands and London. There are several small terminals in London but they are on cramped sites with little room for storage or manufacturing.

"The south-east represents 35 per cent of the UK consumer market and is drastically under-served for terminals," said Julian Worth, business development manager at English Welsh & Scottish Railway, the largest rail freight group.

The plans do not envisage a direct rail connection with Heathrow, but by extending the freight track under the M25 to the airport a link could be created for passenger and freight use.

Proposals were first put forward two years ago by a consortium including a US rail project manager, a large rail equipment manufacturer and a distribution group. Argent took over management of the project because of the scale of the investment involved.

Taskforce aims to boost open government

By Andrew Parker, Political Correspondent

A freedom of information lobby group has declined to take its place on a new government taskforce charged with sweeping away the culture of secrecy that permeates through government departments and other public sector bodies.

The Campaign for Freedom of Information says it will wait until the government has published the long-awaited freedom of information bill. Ministers want to engender a US-style approach to openness, and encourage civil servants and other public sector workers to embrace a new culture of transparency.

The advisory group on openness in public service has been set up by Jack Straw, who as chief home affairs minister has responsibility for the bill. Lord Williams of Mostyn, Home Office minister, chairs the committee.

Members include civil servants from the Cabinet Office, Home Office and public record office, and representatives from local government. Elizabeth France, data protection registrar, and Robert Hazell, director of the Constitution Unit think-tank, also have places.

The committee will report by October on methods to lift the veil of secrecy spread across much of the public sector. It is expected to focus on new training for civil servants on transparency, and informing the public of their rights to information.

Lord Williams said: "The decision to set up the committee demonstrates a determination to look for a much more open culture, not simply in government but in all those organisations that affect the public."

Some ministers have been concerned at the way press offices in government departments fail to give full and balanced information to the media. They believe the last Conservative administration helped engender a culture of secrecy.

However, ministers are facing criticism over their commitment to open government because of substantial departures in the forthcoming legislation from the 1997 freedom of information paper stating government policy

NEWS DIGEST

MEDIA

Government forced to lift ban on race murder report

Jack Straw, chief home affairs minister, was yesterday forced to abandon his attempts to prevent newspapers printing savage criticism of the London Metropolitan police force contained in the judicial report into the racially motivated murder of Stephen Lawrence, a London teenager, six years ago.

Leaked details of the report appeared in early editions of The Sunday Telegraph newspaper yesterday and were picked up by other news outlets, before the government obtained an injunction banning publication. After pressure from newspapers and widespread criticism that Mr Straw was undermining the freedom of the press, the government amended the injunction to allow newspapers to print the report's conclusion that the London police service was tainted by a "pernicious and institutionalised racism".

Mr Straw had justified the injunction by saying he had planned to publish the report in full on Wednesday and claiming that a "partial" account would be "profoundly unfair" to the family of Mr Lawrence and to the "police officers involved". **Robert Peston, London**

BUSINESS

Public mistrust at 30-year high

Public confidence in British big business is at its lowest for three decades, according to a poll by MORI, the opinion research organisation.

MORI began measuring public attitudes to business in 1970 with the question: "Do you agree that the profits of large British companies help make things better for everyone who buys their goods and services?" In the first poll, 53 per cent agreed and fewer than 25 per cent disagreed. By 1999 25 per cent were in favour and 52 per cent against.

In the latest survey, more than two-thirds said businesses did not pay enough attention to their social responsibilities and that they failed to pay enough attention to their treatment of the environment. However, more than two-thirds said large companies were essential for the nation's growth and expansion. **Kevin Brown, London**

PROFESSIONAL EDUCATION

Public sector masters launched

Warwick University, in central England, is to launch a US-style master of public administration degree in a move that marks the rise of the public sector as an arena for top managers.

The MPA, the first of its kind in the UK, is expected to be in demand among civil servants, local government officers, medical professionals and school "super heads". If copied by other UK universities, it could halt the climb in popularity of the MBA, which was designed for private sector workers but now also caters for public sector workers.

Warwick Business School said: "There is no equivalent world-class qualification for top policymakers and managers in the public sector." The UK's existing courses in public administration were "seriously out of date and out of touch", because the public sector had changed greatly over the past 10 years. **Simon Targett, London**

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PROFESSIONAL EDUCATION

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INSIDE TRACK

PROFILE SAM GINN, CHAIRMAN OF AIRTOUCH

Long distance lone ranger

The man who spent 15 years creating the world's biggest pure wireless carrier explains his strategy to **Richard Waters**

Before long, the chairman of the third-largest company in the UK will be living more than 6,000 miles from head office.

Even in the era of the global mega-corporation, this may seem a stretch. But Sam Ginn, chairman of AirTouch, has made a career – and a fortune – out of sticking to his guns, and he doesn't plan to change now.

His two young grandchildren are in San Francisco, he says, so he simply can't leave: his wife wouldn't let him. He also displays an obvious reluctance to let go of the California-based company he built into the world's biggest pure wireless carrier, before agreeing last month to sell out to Vodafone of the UK. And there is a nagging concern that corporate life in Britain is a million miles from the sort of environment he has spent the past 15 years creating at AirTouch.

If, at 62, Mr Ginn seems a little reluctant to hand over control, it is hardly surprising. A pioneer from the early days of the mobile telephone, he faced down considerable scepticism to get this far. And he clearly views AirTouch as the manifestation of his own theories about corporate behaviour.

It was the chance to start a company from a blank sheet of paper that drew him into wireless telephony in the early 1980s, even more than the business opportunity that was opening up, Mr Ginn says. He describes himself as "someone who has been interested in management, in what it is that motivates people to perform".

All of this makes him part of a rare breed in US telephony. Like many others, he spent much of his career in the sprawling bureaucracy of the Bell system before the break-up of the old AT&T in 1984. But his slightly reserved demeanour and considered way of weighing questions before offering a response disguises an entrepreneurial drive and vision that few of his peers displayed.

All of this may explain why Mr Ginn now exhibits a healthy wariness about what he has just done. Merging two companies on different continents "is a real risk", he says.

Vodafone's $62bn offer has turned more AirTouch employees into millionaires than Mr Ginn can keep track of, and some of these may decide the time has come to move on, he says. AirTouch was an early exponent of motivating all employees with the chance to make big gains by holding the company's stock. "I don't think [this practice] is very common in the UK," says Mr Ginn, while Vodafone is itself only "just beginning".

Part of this seems to reflect the chasm in corporate governance that has traditionally existed between the US and UK.

As the chairman and chief executive of a large company, Mr Ginn says he has been concerned mainly with setting strategy. The British practice of a chief executive acting like a managing director is alien to him.

That makes the role non-executive chairman – the position he will take in the new company – equally

Selling AirTouch has brought Ginn stock and options worth more than $220m

alien. And he has already accepted that the motivational techniques that have served him well in the US – encouraging people to see the company's "vision, values and goals clearly" – will not translate easily into a British culture where irony and self-deprecation play a large part.

All of this helps to explain why a merger with Vodafone – long viewed in the industry as a strong likelihood – nearly didn't happen. Last summer, the two companies talked about a combination, but drifted apart after failing to agree on price and how to run the new group.

Mr Ginn says that having failed to pull off one of his two strategic objectives – going global – he then turned to his second: developing a national presence in the US. This brought the company close to a combination with Bell Atlantic, something he describes as a pure disposal of the company, rather than a merger, before Vodafone returned to the fray.

In the end, the British company came up with a much higher offer – not enough, apparently, to meet Mr Ginn's own view of his company's worth, but then he says that Chris Gent, head of Vodafone, "probably isn't happy with how much he had to pay, either".

And Vodafone made enough concessions in how the new company would be run to convince Mr Ginn that his creation would not be wrecked. Board seats were split evenly between the two companies. "They said they understood the different philosophies on pay in the UK and the US," he says.

Certainly, Mr Ginn's own remuneration will seem foreign to many UK shareholders. Selling AirTouch has brought him a considerable windfall: his stock and options are worth more than $220m.

How does he justify such wealth? "The whole issue depends on where you are coming from philosophically," he says.

The level of pay is valid "if you have a vision, and can implement that vision and make shareholders wealthy," he says. "I have not had one complaint from a major shareholder."

Mr Ginn certainly draws admiration from peers for his successes at AirTouch. "He's done very well," says Dan Hesse, head of AT&T's wireless business. "He had a view and he stuck to it."

Other early backers of wireless telephony have also made big fortunes, adds David Roddy, telecom economist at Deloitte & Touche. "The people who have kept the vision alive have done very well out of it."

Indeed, it is only very recently that Mr Ginn's bet has paid off. After its stock market listing in 1994, AirTouch's share price languished. At the time, the US company was busy buying up minority stakes in European wireless companies – investments that are now worth far more than its more developed domestic operations.

This was not a fashionable strategy at the time. "The [national] European carriers really didn't see it as their role to compete in someone else's market," he says. "They began to wake up in the mid-1990s." By then, companies like Vodafone and AirTouch had secured a continent-wide footprint.

Wall Street didn't wake up until very recently: two years ago, AirTouch's stock was worth less than a third of the final buy-out price. "American investors can be very American-centric," just as Europeans can be euro-centric, says Mr Ginn.

Concerned, he turned to two other San Francisco-based entrepreneurs on his board for advice about what to do about his lagging share price: Charles Schwab, chairman of the most successful discount stockbroker, and Don Fisher, who created Gap.

Their advice: don't be swayed by stock market fashion. "They said keep creating value, and the market will take care of itself," says Mr Ginn. A big windfall for AirTouch's shareholders – including Mr Ginn himself – is the result.

Essential Guide to Sam Ginn

The first big gamble: AT&T had little interest in the Sacramento and Los Angeles wireless networks that Ginn had created, the first in the US. He recalls a senior AT&T executive telling him, at around the time of the forced break-up of the company in 1984, that Ma Bell believed there was little future in the business. Ginn disagreed: the 1984 Los Angeles Olympics provided the first evidence of the potential demand for wireless, he says. "It was my belief that people had an insatiable need to communicate, and they had been denied it while on the move."

The second big gamble: Ginn's decision to quit as chief executive of Pacific Telesis – the local carrier whose cellular operations were spun off and renamed AirTouch in 1994 – did not seem an obvious career move. "People were saying, why would he do that?" Ginn recalls. There have been complaints that Californians were short-changed when the fast-growing, unregulated wireless business broke away from the regulated local carrier, allowing Ginn and others to profit enormously. But extensive regulatory hearings in California examined all these issues, says David Roddy at Deloitte & Touche. "Everyone was very aware of what was going on."

A vision of the future: The distinction between wireless telephony and traditional wireline calls will soon be obsolete. "People want a service, not a technology," and the cost of wireless calls and quality of service will soon be low enough to compete head-on with wireline.

The European investments of AirTouch and Vodafone will be turned into "a pan-European network in the next few years". He says that when the old AT&T was being broken up in 1984, Sacramento and Los Angeles had the only mobile systems in operation in the US.

LUCY KELLAWAY

False dawn of American powerchicks

A resolutely upbeat book that claims women are poised to dominate the US is premature

The sun is rising and the sky is orange. Silhouetted against it is a woman with big shoulders, spiked heels and a briefcase. This is the cover of *Powerchicks*, a new book about women in the US.

Unlike most books about women and power this one is resolutely upbeat. It is also written by a man: a white, Southern, middle-aged man by the name of Matt Towery. The subtitle – *How Women Will Dominate America* – gives you a clue to what the book is about. Yet the real story from the US on the subject of women is the reverse of Mr Towery's.

In big business the "powerchicks" are not advancing; at least they are not advancing in the way everyone predicted 10 years ago. Then, we all argued that it was just a matter of time before the new generation of smart, ambitious women managers would clamber their way to the top of the biggest companies. But, according to research by academics at the Kelly School of Business, the number of women with executive positions in US boardrooms is lower now than it was 10 years ago. In 1987 there were 11 female directors at Fortune 500 companies, but by 1997 there were just eight. The number of women chief executives was two in 1987 and was still two 10 years later.

Powerchicks in corporate America evidently need help. And, fortunately, help is at hand at the back of Mr Towery's book, where he offers 10 "powerpoints" for women on the make. Powerpoint 1 is to be proud to be a women. (This strikes me as a uniquely American idea; it no more occurs to me as a Brit to be proud of being a woman than it does to be proud of being, say, 5ft 4ins or of having brown hair.) Powerpoints 2 to 10 include being decisive, being a team player, being flexible and creative, communicating well, taking risks and having a *mission*.

Thinking about these I find I know lots of perfect powerchicks. The trouble is, more than half of them are men. In any case, none of these points captures, for me, the essence of the powerchick, which is surely a delightful concept and a useful addition to the language.

Better is the account given by Mr Towery of asking a successful women whether she objects to being referred to as a powerchick. "Hell, no!" she screams. That's more like it.

***

I got up at dawn one day last week to have breakfast with three senior consultants from McKinsey. They turned out to be pleasant, smiling chaps with neat hairdos and nine university degrees between them. While I sat there chewing on a piece of toast, I worked out that the cost of this meal was higher than any I was likely to eat again in my life: assuming they each rent themselves out for around £300 an hour, the total came to about £1,500. But this was not money wasted; indeed during that time I came to rethink some of my most cherished prejudices about management consultants.

Take the matter of shirts. I thought that hot-shot consultants only wore white shirts with double cuffs. Imagine my surprise when one of these fellows was actually in a blue shirt and his colleague, although in a white shirt, was not wearing a collar. Then consider the ties. One was not wearing a tie and the others were in "witty" ones with hearts and elephants on them. What is going on? Is McKinsey dressing down, or was this a special casual wardrobe for meeting the Financial Times? Neither alternative appeals.

The other revelation was about the supposed unpopularity of consultants. I thought the rank and file in a company had collective apoplexy the minute they discovered McKinsey had been called in. Either it meant redundancies or it proved the management had run out of ideas.

But, according to my breakfast companions, this is not the case. In fact, humble employees enjoy having the nice chaps from McKinsey in so much that when the consultants finally pack their bags and call it a day (or a year, or two, or whatever) the employees plead with their managers to let them stay on.

I know this is true because the consultants themselves told me that one of McKinsey's core values is *Never Lie*. Yet it still seems a little, well, surprising. The consultants explain this phenomenon by saying that being gone over by McKinsey is "a special experience" and that "a lot of energy gets released".

But I wonder if the real reason is not more basic than that. If you go a couple of levels down in a company people are used to being ignored. What a delight, then, to have a team of consultants asking you questions and writing down your answers.

This suggests to me a glaring market opportunity. Surely the same effect could be achieved by a team of listeners (retired primary school teachers, counsellors etc) who could also lavish attention on employees and charge rather less than £150,000 a month for the service. There is another solution. The managers could listen to staff. But even as I write that I retract it. Too radical by far.

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BUSINESS TRAVEL BUDAPEST

State of the Art Nouveau hotels

Investment in rooms with a view reflect the city's development, writes **Roger Bray**

Location being the *sine qua non* of hotel development, it was inevitable that the saga of The Gresham would run and run. It faces the Danube at one end of Budapest's Chain Bridge and, from its windows, you can look across to the Fishermen's Bastion on Castle Hill.

Its crumbling facade is an ornate specimen of Secession architecture, Hungary's version of Art Nouveau. There are covered carriageways, into which taxis could sweep through great gates of wrought iron, fashioned into images of peacocks. The main door is of marble, the central courtyard covered by a handsome dome of partly shattered glass.

It opened in 1905 as the headquarters of a British insurance company. Under the Communists it became an apartment block. Now part of the building houses a casino.

International hotel companies have been eyeing it for a decade or so. At last, one of them has bitten the bullet. The Toronto-based Four Seasons group has signed a deal with a consortium of investors to convert the building into a five-star hotel with 155 rooms, scheduled to open in 2001.

Some will see it as an expensive statement of faith. Room occupancy in Budapest fell last year from 69.6 per cent to 68.2 per cent and there was a sharp fall in the number of guests paying full-room rates. There are signs of economic caution in the city: the building of a new national theatre and an additional underground train line have been put on ice.

But with Hungary's economy in relatively good shape by regional standards, there are signs of continuing optimism. A significant expansion to the airport was recently completed: Terminal Two has been revamped, with more air bridges to avoid bussing passengers to and from aircraft. The extension, which has increased the building's passenger capacity from 2m to 5.5m a year, has allowed scheduled airlines to abandon the ageing Terminal One.

It is hoped this will encourage US airlines to launch stand-alone flights to Budapest. Malev and Delta offer non-stop code-share flights to and from New York, but most transatlantic passengers must travel via other European cities.

The main conference and exhibition centre, which handles mostly domestic events, is to be expanded. An extra floor is to be built that should allow it to compete with hotels for medium-sized meetings of 600-800 delegates.

A full refurbishment is taking place at the four-star Hotel Gellert, another Art Nouveau monument that is part of the UK-owned Danubius chain.

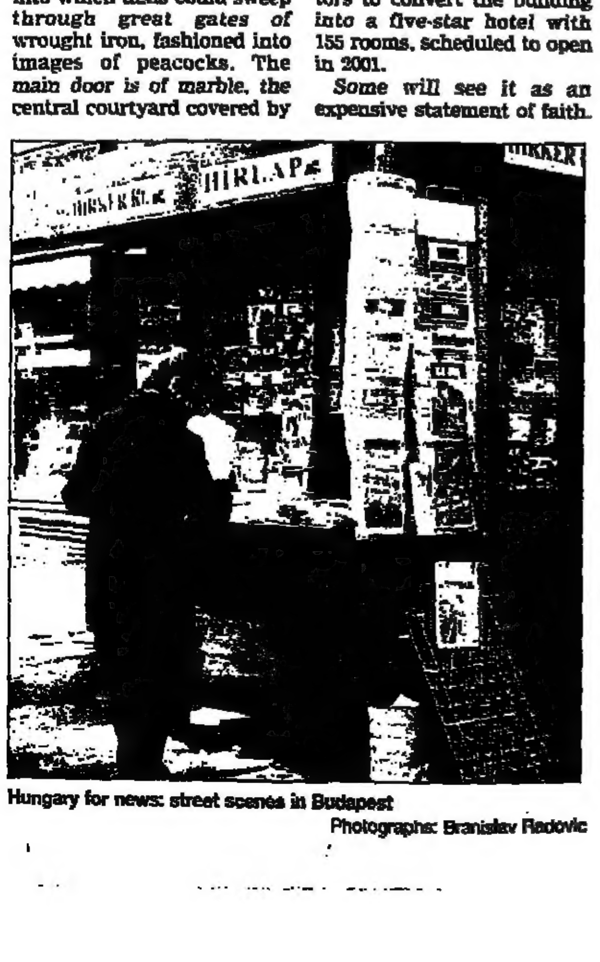
Rooms will be upgraded, reduced in number and fitted with equipment such as interactive televisions so that guests can see their bills and send messages to reception. The hotel is also making a push for conference business.

Budapest's potential for growth recently received a vote of confidence when the Marriott hotel chain opened the Millennium Court, a luxury apartment complex for long-stay visitors.

The development incorporates a shopping mall that is, as yet, only partly occupied by retailers. Apartments have ISDN lines. There is a health club but no restaurant – though a grocery service is provided and guests get 20 per cent discounts at the company's hotel nearby. And while car theft is probably no worse than in most European cities, there is a secure garage.

Crime is something locals tend to blame on outsiders, including Ukrainians. The city's authorities claim to have cracked down on overcharging in restaurants, which was sometimes accompanied by threats of violence. But travellers should be aware of bag-snatchers, pickpockets and bogus policemen.

Rogue taxi drivers also remain a problem. During a recent visit, one driver attempted to charge me nearly double the usual fare for the route I had taken. Visitors are advised to stick to cabs bearing logos of known firms.



Hungary for news: street scenes in Budapest
Photographs: Branislav Radovic

Taste of the capital

Hotels: Five-star hotels: Kempinski (0036 1 266 1000), Atrium Hyatt (266 1234), Marriott (266 7000), Inter-Continental (327 6333), Hilton (in Buda) (214 3000), Corinthia Aquincum (436 4100) and Millennium Court (266 7000); four-star properties include Radisson SAS Beke (301 1600), Gellert (385 2200) and Astoria Szalloda (317 3411).

Taxis: Named firms recommended by locals include City Taxi, Fõ Taxi and Teletaxi. Most city centre journeys should cost no more than Ft100. Allow up to about Ft4,000 between town centre and airport.

Restaurants and bars: International eateries include two with long pedigrees. Gundel, whose menu includes, for example, a four-course meal with wines from its own vineyards for Ft12,000, is owned by American partners. Karpatia (allow Ft6,000 –Ft10,000 with a modestly priced wine) has been bought by Akos Nikolai, who once ran the Hayman Island Resort on the Great Barrier Reef. Also recommended is Oroslanos Kuthoz (Lion Fountain Restaurant) at Gerbeaud (about Ft6,000-Ft8,000), arguably the top cafe for coffee and cakes. At Belcanto, you can eat, or drink, and listen to singers from the opera across the road.

Shopping: Vaci Utca, near most of the top hotels, is the smartest shopping street. Castle Hill has antique shops. The Central Market is great for goodies, such as paprika.

INSIDE TRACK

BUSINESS EDUCATION TEACHING LEADERSHIP

Need for a head start

Should Sandhurst be the model? **Simon Targett** on plans for a college for school leaders

Tony Blair, the British prime minister, knows a good school when he sees one. "As soon as you meet the headteacher," he once said, "you can tell what kind of school it's going to be."

But does he, and his government, know how to turn today's classroom staff into the school leaders of tomorrow? This is the Herculean task facing Mr Blair and his advisers as they draw up plans for the first National College for School Leadership.

There can be no question that the college, to be launched in September 2000, is necessary. As Mr Blair notes: "Our best heads are superb, but we need more of them."

Schools are suffering a shortage of good applicants for headships. A survey conducted by Education Data Services found that 43 per cent of advertised headship posts in London had to be re-advertised.

It is also clear that too many duff headteachers have slipped through the net. This month Chris Woodhead, the chief inspector of schools, reported that there were 2,800 "incompetent" headteachers running English state schools. One in eight primary schools and one in seven secondary schools were deemed to suffer from weak educational leadership.

Without a good headteacher, a school's performance can plummet. Mr Blair says heads make "the critical difference between success and failure".

To remedy the situation, a new pay scale, allowing secondary school heads to earn up to £70,000, was approved this month precisely to make headship a more attractive option for gifted classroom teachers.

This followed measures to boost the public profile of the teaching profession – including an advertising campaign under the slogan "No one forgets a good teacher" and the introduction of knighthoods for headteachers.

Yet for all this the rise of the next generation of headteachers is still left too much to chance.

As Mr Blair has admitted: "Top businesses invest heavily in training their high-flyers and senior managers, but when it comes to headteachers, whose jobs are at least as demanding, we do far less."

The government plans to spend £100m over three years on training headteachers. Much of this will be targeted on the National Professional Qualification for Headship which, when it becomes mandatory for aspiring headteachers in 2002, will provide a threshold for the top job in a school.

But it is not held in high esteem by the best headteachers. Sir Bob Salisbury, one of the new band of so-called "super heads", who runs Garibaldi School in Mansfield, Nottinghamshire, says the NPQH confers only "low level management skills".

This is why he, and others, have been calling for a college that shapes not just educational managers but educational leaders.

The chief inspector of schools reported that there were 2,800 'incompetent' headteachers

The question is, what should such a college look like?

In its green paper, *Teachers: meeting the challenge of change*, which is under consultation until next month, the government says it will have £10m for start-up costs, "a prestigious site commensurate with its importance", the highest quality IT facilities, and a "virtual presence" on the emerging national grid for learning.

Beyond that, it is vague about what it wants the college to look like – so much so that it is looking for inspiration from Sandhurst, the royal military college, which has trained aspiring generals for nearly 200 years.

It may seem a long way from the school classroom on civvy street, but Sandhurst's leadership course is regarded as one of the best of its kind in the world.

John Howson, a former government adviser, thinks headteachers can learn from military leaders: their professionalism and their kitbag of techniques such as "leadership by walkabout" – a favourite of Field Marshal Montgomery, the second world war hero.

An alternative is Bramshill, the police's staff college, according to Alan Smithers, director of Liverpool University's Centre for Education and Employment Research.

"All senior police officers have to work their way up through the ranks, just like headteachers," he says, "and Bramshill – a fine old house – is an ideal place for receiving the knowledge and ethos for being a chief constable."

There is, however, one main problem in simply replicating the training academies for the army and the police, as Professor Smithers readily points out: there are about 50 generals and 50 chief constables, but around 25,000 headteachers.

There is another problem. As John Benington, director of Warwick University Business School's Centre for Local Government, explains, the "uniformed services operate a command and control system" that is "crucially different" to the collegial system in schools.

He would prefer a staff college with strong links to an academic community.

The Harvard Principals' Centre, rooted in the university's graduate school of education, fits the bill, but has been dismissed by government advisers as "too expensive and too elitist".

Professor Benington thinks the college could be linked to a business school, and he is developing a proposal in partnership with Warwick's Institute of Education. This would not, he insists, be "about transporting private sector thinking and imposing it on the public sector", but about establishing "an intimate exchange between academics and practitioners".

Headteachers – serving and aspiring – would visit the college for short sabbaticals. It must not, he says, "siphon off the school elite" from the hard task of raising academic standards.

The college would be rooted in the real world and could provide a tailor-made leadership qualification.

Next week, Warwick is unveiling the UK's first Master of Public Administration course – an MBA for public sector executives. Government ministers, who will shortly publish the college's prospectus, are interested in Warwick's proposals, and it may be that the MPA will become as much *de rigueur* for headteachers as the MBA is for company chief executives.

NEWS FROM CAMPUS

Darden to host global leadership gathering

Unicon, the International Consortium for Executive Education, will be holding its annual conference at the Darden school at the University of Virginia from April 6 to 9.

The conference will look at global leadership, and keynote speakers will include Michael Beer from Harvard, James Dowd from IMD and Alexander Horniman from Darden.
Unicon conference: http://admin.darden.edu/unicon

Career-break free return

Women managers who have taken a career break, often to raise children, are now getting free courses to help them return to management.

The *Women Into Management* course is part-funded by the European Social Fund and is taking place at universities in Spain, Austria, Italy, Germany and the UK. The three participating universities in the UK are Liverpool, Lincolnshire and Humberside and Westminster, which begins its 15-week programme on March 2.
University of Westminster: UK, 171 911 5121

Satellite exchange

Tomorrow, February 23, will see 50 venues around the UK host a live satellite debate about business. London Business School's Innovation Exchange will be one of the three venues in London.

The debate is being organised by the Department of Trade and Industry and is called *2010: A Business Odyssey*. Delegates will be able to question speakers such as Malcolm Brinded, Shell UK country chairman, and Jonathan Porritt, environmental guru, over the network.

● Next month London Business School will begin its 26th series of Stockton Lectures, a lecture series organised around one specific theme. This year the theme will be prospects for progress in the new millennium.

The first lecture will be given on March 4 by Lord Currie of Marylebone, also known as David Currie, professor of economics at LBS. He will be followed by Romano Prodi, former prime minister of Italy (April 29) and Peter Sutherland, chairman of Goldman Sachs (June 10).
LBS:www.lbs.ac.uk

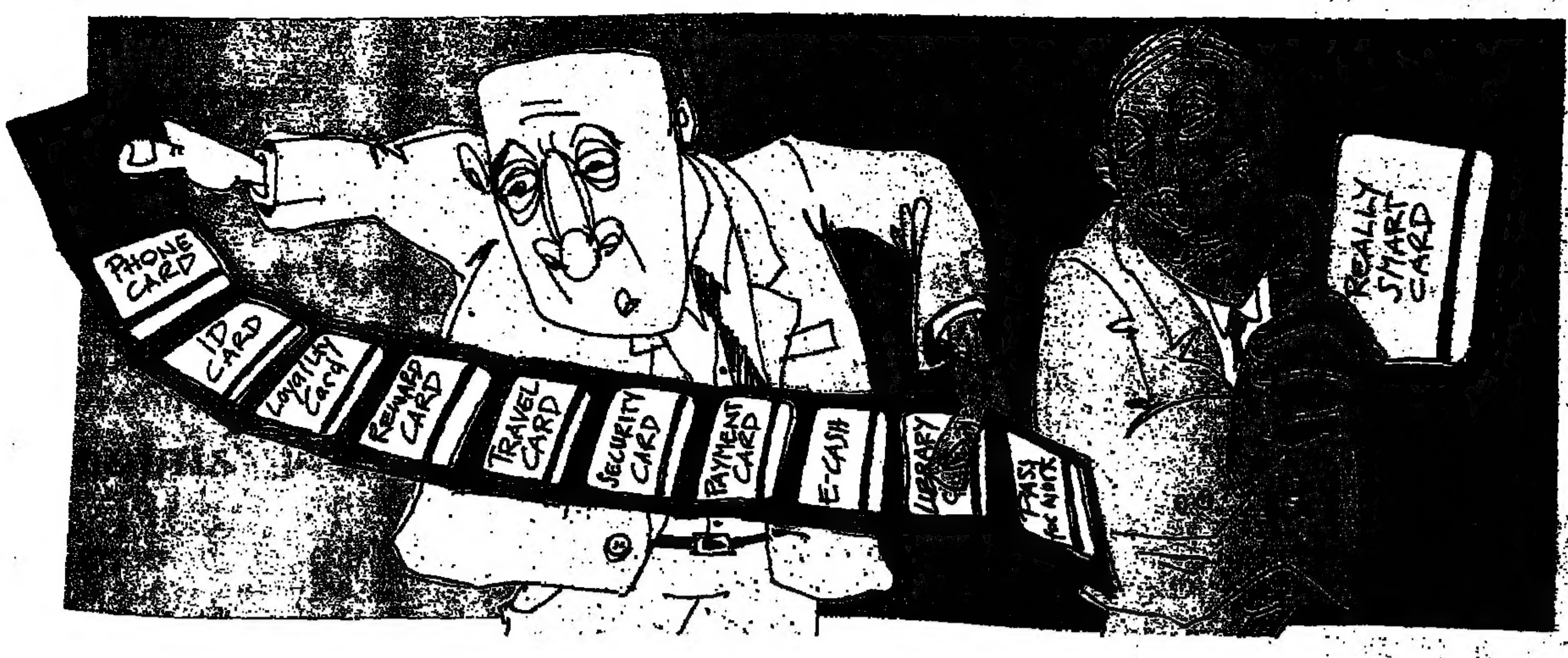
Diageo merger masterclass

At Manchester Business School this Wednesday (February 24) Tony Greener, chairman and chief executive of food group Diageo, will discuss the issues behind the merger of Guinness and Grand Metropolitan to form Diageo.

The lecture is part of MBS's Vital Topics series of business events.
Manchester BS: www.mbs.ac.uk

Theseus hires from Red Cross

Theseus, the business school on the French Riviera, has appointed its latest core faculty member: the information systems director from the International Federation of the Red Cross in Harare, Zimbabwe. Linda Stoddart, a knowledge management specialist, will be in charge of Theseus's network and information centre as well as teaching on the MBA programme.
Theseus: www.theseus.fr



TECHNOLOGY SMART CARDS

All-in-one but not one-for-all

Multi-application cards are set to transform the market, writes **George Cole**

With its embedded microprocessor, a smart card is, in effect, a computer the size of a credit card. And like all computers, it needs an operating system.

Until recently, these operating systems have been proprietary, with different applications running under different operating systems. This means the operating system used by, say, a smart phone card, will be different to one used for storing health records. There are estimated to be between 80 and 100 proprietary smart card operating systems in use worldwide.

But several multi-application smart card operating systems are being developed that are set to transform the smart card market. "Any industry based on proprietary operating systems doesn't make a lot of sense," says Michael Keegan, chief executive of Mondex International, a subsidiary of MasterCard.

Multi-application smart cards are not new. But the new operating systems promise to change the way this type of card is produced. Traditionally, a smart card manufacturer has carried out the fabrication process and downloaded the smart card application and operating system before shipping the card to the issuer.

Although this method offers a one-stop shop for smart card production, it also means that if the issuer wants to add or remove an application, a new smart card has to be made.

But multi-application operating systems will allow several applications to be placed on a smart card at any time. "Application developers need not issue their own card, but could piggy-back on another organisation's card," says Duncan Brown, head of research at Ovum (North America), a technology and telecommunications research company.

"Applications can be downloaded after the card has been issued to cardholders, which reduces the cost of updates and of adding new functionality to the existing card," he says. "The balance of power has shifted from the smart card manufacturers to smart card developers."

"Imagine a retailer runs a loyalty programme for three months," says Nick Habgood, chief executive of Maosco, a smart card consortium. "This application could be loaded on to a smart card, via telephone or the internet, and be removed from the card at the end of the period."

Another benefit is the reduction in cost, says Mr Habgood. "A Mondex [electronic cash] card used to cost around $7 to $8 (£4-£5) to produce and that's just for a single application. But a multi-application smart card could be made for around $4. If the cost is spread among several smart card issuers, then it only costs you $1 per user to issue a smart card."

Several multi-application technologies are jostling for position in the market. One is JavaCard, produced by JavaSoft, a division of Sun Microsystems. Java is a programming language that allows programs to run on computers using different operating systems, and JavaCard employs the same concept. JavaCard sits between the smart card application and the card's operating system, allowing applications to run under different hardware systems.

JavaCard is supported by several companies, including Visa, Bull, Toshiba and Motorola, and Visa has run a JavaCard trial in Singapore. But JavaCard has its critics. "It has promised more than it has delivered," says Mr Brown. "It's a specification rather than an operating system and different manufacturers have interpreted it in different ways. This means there's no guarantee that applications will run on different JavaCard products."

> **'The balance of power has shifted from smart card manufacturers to developers'**

Another problem is that applications operating under JavaCard run more slowly than when using the underlying operating system. JavaCard also requires more powerful smart cards than those in use today. Mr Brown believes it will be a year before JavaCard becomes a viable smart card system.

A rival approach is Multos (multi-application operating system). This has been developed by Mondex, which has handed over the standard to Maosco, whose members include Gemplus, Hitachi, Siemens-Nixdorf and Motorola. Multos offers a high level of security. This feature is important, because card issuers need to be confident their applications cannot be accessed by another party sharing the same smart card. Multos' powerful security has led to various financial organisations supporting the standard, including Europay, American Express and MasterCard. This year Hitachi and Siemens shipped the first commercial samples of Multos cards, and more than 250 application developers have taken a Multos licence.

Last October, however, Microsoft announced its Smart Card for Windows operating system. Its applications include access to corporate networks, electronic cash and online transactions, such as home shopping.

The successor to the Windows 98 operating system, provisionally called Windows 2000, will include a smart card as standard. "When you start up Windows 2000, it will ask you to insert your smart card," says John Noakes, business manager for e-commerce at Microsoft UK.

"Smart Card for Windows has a good chance of becoming the de facto standard smart card operating system for networks, including the internet," says Mr Brown.

Mr Noakes says Microsoft envisages a so-called White Card, a blank smart card on which sits the Windows operating system.

"It'll only cost around $1. You take the card home, put it into a smart card reader and download the applications you want," adds Mr Noakes.

Many believe Multos and Smart Card for Windows will co-exist, with the former finding a niche in the financial sector. But it seems that even with the arrival of multi-application operating systems, the concept of a universal smart card is still not on the cards.

OFF-LINE SYSTEMS

Make your way to the pay terminal

John Madeley on a battery-powered payment method devised for developing countries

A new way to pay for goods and transfer funds, which needs neither telephone links nor electricity, could address an urgent need in developing countries for a system that is suited to local conditions.

The system, developed by Smart Application Systems (SAS), a small company based in Frome, Somerset, has been in use in Swaziland since 1995.

It follows a credit project run by the US Agency for International Development in the early 1990s, which eventually developed into an institute, the Growth Trust Corporation (GTC). The project's leader, Don Henry, conceived of the smartcard system, says Miles Emerson, co-founder of SAS.

Business people, including farmers, were the first to be issued with "off-line" smartcards, which are similar in size to the standard credit card. Holders of cards have an account or credit arrangements with GTC; their account details and transactions are held on a microchip in the card.

Cardholders use them to pay for their purchases where the seller has a smartcard terminal – which can be battery-powered, if necessary. The terminal identifies the customer and deducts the amount of a sale from the card after a purchase.

The seller has no need to ring up a central computer to check if the holder's credit is good. A phone line is therefore not needed – which makes the card especially useful in areas where telephones do not exist or are not working. A battery-powered terminal is again valuable in areas where electricity supply is either non-existent or erratic.

The technology could also smooth other transactions, says Mr Emerson, enabling, for example, "a customer to have a repayment-by-instalment loan for home improvements, or a line of credit with a group of merchants".

Amounts on cards are not necessarily small, he says: "Some cards in Swaziland have as much as $1,500 [£930] on them." Cards are protected by a pin number that "is almost impossible to decipher", he says, making fraudulent use difficult. The smartcards cost $3 to $5 each and the terminals $200 to $400, depending on capacity.

Mr Emerson believes that smartcards could help to facilitate the distribution of agricultural inputs and medicines, and sees a big potential for them, especially in remote areas of developing countries.

"The smartcard system takes a big step outside the wired-up world of mainframe computers and telephone networks and offers new and much more economical solutions," he says. "It can extend the reach of banks, and a bank can be any organisation that offers financial services for credit, loans or savings."

Preparations are being made for introducing the system in Indonesia, with BRI Bank, which has 20m customers and 5,000 branches. Mr Emerson also hopes it will soon be launched in Nigeria.

The innovation recently won for SAS the Shell Technology for Development Award. This is one of a number of awards presented annually, as part of the "Worldaware Business Awards", to UK companies working in developing countries. Worldaware is a London-based education charity.

OPENINGS

NEW YORK
Not About Nightingales, an early play by Tennessee Williams about a prison uprising, opens at Broadway's Circle Theatre on Thursday. Dusted off by Vanessa Redgrave and starring Corin Redgrave (left), the production was seen last year in London and Houston. The director is Trevor Nunn.

Up-and-coming French pianist Hélène Grimaud makes her New York Philharmonic debut at Avery Fisher Hall on Thursday. The programme pairs Beethoven's Fourth Concerto with Liszt's Dante Symphony. Kurt Masur conducts, and there are repeat performances on Friday, Saturday and next Tuesday.

At the State Theater, New York City Ballet pays tribute to Jerome Robbins with a week-long festival of his ballets.

BIRMINGHAM
The Lahti Symphony Orchestra makes its UK debut at Symphony Hall on Saturday, in a concert featuring the first performance outside Finland of the original version of Sibelius's Violin Concerto. The concert is part of a weekend of Sibelius performances conducted by Osmo Vänskä (left).

VIENNA
Performances of *Die Zauberflöte* in Vienna may be two-a-penny, but new productions are rare. Canadian stage director Robert Carsen promises a fresh look at Mozart's Masonic fairy-tale at the Volksoper on Saturday. Asher Fisch conducts.

SEATTLE
American sopranos Sheri Greenawald and Ashley Putnam share the title role in Samuel Barber's *Vanessa* over the next two weeks at the Seattle Center Opera House. Greenawald sings the first night on Saturday, in a staging by Sharon Ott. The conductor is Yves Abel.

LONDON
Pacific Northwest Ballet from Seattle plays a first London season at Sadler's Wells Theatre this week. Opening with a quadruple bill (Monday to Wednesday), the company ends the week with its staging of Balanchine's *A Midsummer Night's Dream*, which won golden opinions at last year's Edinburgh Festival. The cast includes Paul Gibson as Oberon (right).

Tartan rules over the border

Antony Thorncroft talks to the director of the new Museum of Scotland

These are not the easiest of times to be the English director of a leading Scottish museum. As Scotland rushes towards its May election, and independence becomes a hot issue, museums and galleries are summoned to the colours of nationalism: their collections hold the tribal identity, as well as much of the artistic treasure.

This is especially true of the Museum of Scotland, a luminous bastion of a building which, after years of gestation, and an expenditure of £52m, opened three months ago alongside the stately Royal Museum of Scotland in Edinburgh's Chambers Street. Its task is to tell the history of Scotland through objects, and its completion, over the architectural disapproval of the Prince of Wales, was seen through by Mark Jones, the very English, indeed Old Etonian, director of the National Museums of Scotland.

Nationalistic approach: museum director Mark Jones

He had the task of stocking the museum, and more importantly, deciding on its political line, quite a challenge given current sensitivities in Scotland. He has gone for a nationalistic approach, with the ringing do-or-die defiance of the declaration of Arbroath filling one wall, and England given little quarter throughout.

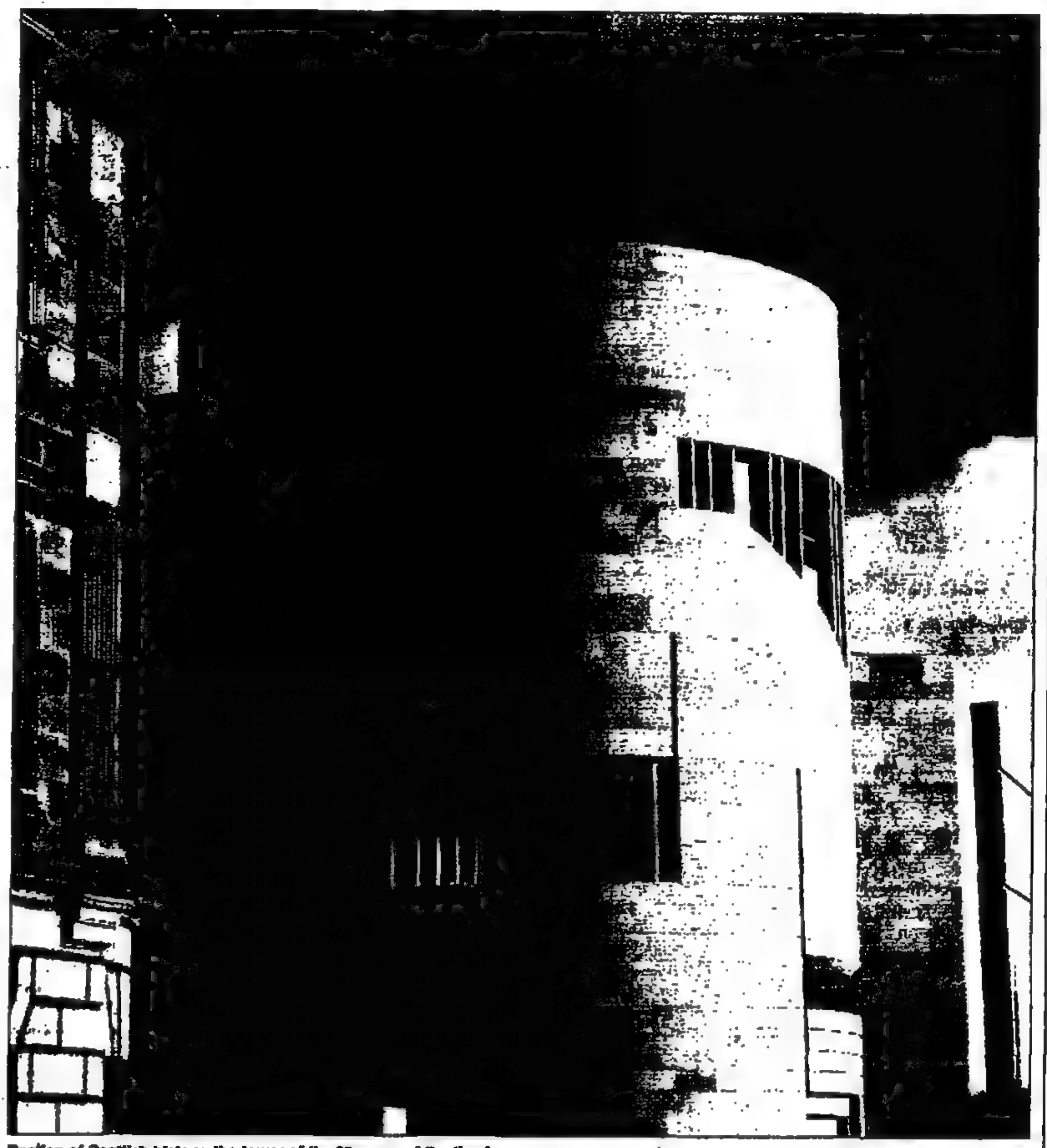
When the story reaches Mary, Queen of Scots, with a cast of her magnificent tomb in Westminster Abbey, the accompanying label berates Queen Elizabeth for not supporting her cousin and eventually executing her, with no reference to Mary's ambivalence to plotters against the English Queen.

But there is nothing wrong with this. In fact the attraction of the museum is its unabashed Scottishness. It celebrates the differences between the two kingdoms, and brings to life – through objects as macabre as the "Maiden", an early guillotine, and as austere as a 19th century communion table reserved for the worthy – Scotland's tempestuous, often violent, history.

Only the 20th century gallery, in which the people of Scotland were asked to suggest the objects which summed up the modern era for them, and delivered everything from Irn-Bru to Doc Martens, from an electric guitar to a Hillman Imp, looks like a cop-out, a bland tribute to the age of consumerism.

Yet for all his commitment to the cause, Jones has still aroused criticism. One nationalist hero, Robert the Bruce, can be satisfactorily represented by the Bute mazer, a communal drinking cup featuring the heraldry of the nobles who won Bannockburn, with Bruce at the centre; but why nothing of Braveheart, William Wallace? The fact that the only object known to have survived with any link to the scourge of Edward II – a bureaucratic letter written by one of his scribes to the merchants of Lubeck – is lacking in populist appeal was little excuse. Jones has bowed to nationalist opinion and this month the letter, suggesting increased trade between Scotland and the Baltic port, has been borrowed from Germany for temporary show.

Jones can probably do without such bickering. Running a museum with government funding in decline is a nerve racking enough task.



Bastion of Scottish history: the tower of the Museum of Scotland

Last year, after a fall in revenue in real terms of 23 per cent in five years, Jones was forced to introduce an admission charge. The attraction is not the extra ticket revenue, but the fact that he can now, as a business, claim back VAT. The museum is £3m a year better off, but the price paid is dreadful – a fall in visitor numbers last year of 40 per cent.

Fortunately, by introducing such an unpopular measure, Jones, assisted by his colleagues on Merseyside who brought in charges at the same time, seems to have forced the government's hand. Free admission is back on the political agenda and in three years time, in theory, all charges will be abolished. It will be up to the new Scottish Parliament to confirm the decision, and it is hard to see that body failing to support a national institution.

The new Museum of Scotland has already done its bit in lifting numbers. It has attracted over 150,000 visitors since November and should bring in 1m people during its first year. For all the criticism it is an undoubted success, leaving Jones to tackle more challenges. For although revenue funding of museums has declined, the lottery has released unexpected millions for capital projects.

Jones has received £15m so far but he is looking for more, not least to complete a Museum of Rural Life on a farm to the west of Edinburgh, which has changed little in 400 years, and £6m to fund an imaginative project in which all the museum's unshown holdings, along with the unseen pictures of the National Gallery, will be put on view in a new "green" storage building, a warehouse of art and artifacts in West Granton, a rundown part of Edinburgh.

This commitment to access is also behind Jones's pet project – SCRAN, which, by the end of this year, should enable 80 per cent of the schools in Scotland to gain access through their computer screens to 200,000 of the objects in the museum's collection. Throw in the re-organisation of the militaria, held at Edinburgh Castle, and further developments on the Flight Museum, and Jones has enough work in hand to ignore speculations about his future when new, more politically motivated, paymasters occupy the Scottish parliament building, slowly emerging near Holyrood Palace.

But it is events in England which could determine Jones' next career move. He came to Edinburgh from the coin department of the British Museum and has been tipped as the likely successor to director Dr Robert Anderson – who, by co-incidence, also moved to Bloomsbury from Edinburgh.

Now the trustees of the BM are appointing a managing director to help run the museum at the highest level, leaving Anderson to be the public face, the scholarly fund raiser. It is not a prospect that appeals much to Jones. Perhaps he feels that he has done enough in giving Scotland a musuem that matches its current macho mood to stay there as long as the challenges suit him.

'Tosca' fails to scale the heights

OPERA
RICHARD FAIRMAN

Tosca
Royal Albert Hall, London SW7

Private enterprise knows what to do when it has a success: invest in the winning team and hope that the customers will come back for more.

Last year Raymond Gubbay, Britain' most prominent private sector arts promoter, scored a hit with *Madam Butterfly* at the Royal Albert Hall, pleasing not only the audiences but also the critics. Not one to waste this unforeseen acclaim, he is already advertising a revival of the production for the year 2000.

In the meantime this year's offering is an attempt to replicate that success – another Puccini opera, the same production team, and the same sell-out at the box office.

Unfortunately, opera is not a production-line business. This new staging of *Tosca* is passable, but hardly the spectacular that people might hope to see in this vast arena. Even the great scene of the Te Deum, where Puccini piles on choristers and extras by the truck-load, looks sadly underpopulated.

Having been given the run of one of the biggest acting spaces for opera in London, the production team woefully underuses it. David Rogers' designs simply put prison-like enclosures into the arena in Acts 2 and 3, leaving vacant expanses where nothing happens.

Of course, it would not be a David Freeman production if there were not a few original ideas. This is the first *Tosca* where people will have seen a full-frontal torture scene, and Tosca needs a jolly good head for heights to run up the long staircase over the orchestra for her final fling. But none of this was enough to compensate for a general flatness and the feeling that Freeman had sometimes taken his eye off the ball.

Scarpia's entrance, which should be one of the most hair-raising moments in all opera, was completely muffed. Extras entering at various points through the stalls made it unclear where Scarpia was actually meant to be. Nor did it help that the RAH staff chose that moment to let in the latecomers, so that the posse of evil henchmen seemed to include rather a lot of smart-suited City workers and their lady friends.

Keith Latham did well to overcome this initial handicap and quickly built up a dominating presence. With his Scarpia what you get is what you see: a bully pure and simple, no hidden psychotic personality. He sings Amanda Holden's lively new translation with marvellous clarity and even managed to bring off the attempted rape of Tosca on top of the dining-table without raising titters from the gallery.

Susan Bullock is not a natural for Tosca, but she has a certain everyday credibility. It was a shame, though, that the microphones picked up some raw sounds on the top notes. And was it really a good idea for her to sing "Vissi d'arte" kneeling among the soup dishes on the table?

As Cavaradossi, John Uhlenhopp sings cleanly and the role as an agonised political agitator, not a glamorous lead man. The opera is double cast, so the three principals change between performances. The smaller roles, including Richard Suart's over-fussy Sacristan and Richard Angass booming Angelotti, stay the same.

Despite some noisy crackles from a right-hand speaker up on the battlements of the Castel Sant Angelo, the sound system worked well, a big improvement on Gubbay's early efforts. Unfortunately, the performance it relayed was a fairly soggy one, conducted without much Italianate fire by Peter Robinson and only adequately played by the BBC Concert Orchestra.

Most standard revivals at Covent Garden are more exciting than this. If the Royal Opera does reduce its ticket prices when it re-opens, perhaps the thousands who flock to Gubbay's promotions at the Royal Albert Hall will be able to afford to go and find out for themselves.

Sponsored by American Express. Performances continue at the Royal Albert Hall until February 28.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 24

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Feb 24

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-051-529 999
www.nettuno.it/bo/teatrocomunale
La Bohème: by Puccini. Conducted by Daniele Gatti/ Paolo Arrivabeni in a staging by Lorenzo Mariani, with designs by Willy Orlandi; Feb 23, 24, 25

CARDIFF

OPERA
Welsh National Opera
Tel: 44-1222-464 666
● Hansel and Gretel: by Humperdinck. Conducted by Wladimir Jurowski in a staging by Richard Jones, premiered in December. Cast includes Imelda Drumm, Linda Kitchen and Nigel Robson; Feb 26
● Peter Grimes: by Benjamin Britten. Carlo Rizzi conducts a new staging by Peter Stein. With sets by Stefan Mayer and costumes by Moidele Bickel. Cast includes John Daszak and Janice Watson; Feb 24

COLOGNE

EXHIBITION
Wallraf-Richartz Museum
Tel: 49-221-223 82
www.museenkoeln.de
Arendt de Gelder (1645-1727): first monographic exhibition devoted to Arendt de Gelder, one of Rembrandt's most prominent pupils. The show includes 58 paintings and 13 drawings as well as 25 graphic works by Rembrandt; to May 9

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Henri Cartier-Bresson: Europeans. Previously seen in Paris and London, this show brings together 185 works ranging across the photographer's career from the 1930s to the present; to Jun 6

EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
● Scottish Opera: Der Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 24, 27
● Scottish Opera: The Magic Fountain, by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Feb 26

HARTFORD

EXHIBITION
Wadsworth Atheneum
Pieter de Hooch (1629-1681): previously seen at Dulwich Picture Gallery, this first-ever one-man show of the Dutch painter offers a reassessment of his work. Less celebrated than his contemporary, Vermeer, de Hooch was a pioneer in his own right, and a specialist in maternal and domestic subjects; to Feb 27

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Lorin Maazel in the UK premiere of his Music for Violin and Orchestra, and in Bartók's First Portrait; and by Wolfgang Gieron in Tchaikovsky's Symphony No. 6; Feb 24, 25,

Royal Festival Hall
Tel: 44-171-960 4242
London Philharmonic Orchestra: conducted by Jukka-Pekka Saraste in works by Strauss and Beethoven, with soprano Cheryl Studer; Feb 24

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● La Traviata: by Verdi. Michael Lloyd conducts a revival of Jonathan Miller's production; Feb 22, 25
● Parsifal: by Wagner. Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futterer. Cast includes Kim Begley and Jonathan Summers; Feb 23, 26

MANCHESTER

CONCERT
Bridgewater Hall
Tel: 44-161-907 9000
BBC Philharmonic: conducted by Edward Downes in works by Elgar; Feb 27

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Ingo Metzmacher in works by Schubert and Henze; Feb 22, 23

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● New York Philharmonic: conducted by Kurt Masur in works by Menotti and Mahler, with mezzo-soprano Jennifer Larmore, tenor Richard Leech and violin soloist Glenn Dicterow; Feb 23
● New York Philharmonic: conducted by Kurt Masur in works by Beethoven and Liszt. With piano soloist Hélène Grimaud, viola soloist Rebecca Young and the American Boychoir; Feb 25, 26, 27

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick. Cast includes Philip Langridge and John Tomlinson; Feb 23, 26

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Christoph Eschenbach in works by Brahms, with piano soloist Tzimon Barto; Feb 24, 25

PRAGUE

DANCE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Nutcracker: by Tchaikovsky, in a staging by Russian choreographer Jurij Grigorovic, with sets and costumes by Simon Virsaladze; Feb 24

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Jeffrey Tate in works by R. Strauss, Humperdinck and Honegger; Feb 25, 26, 27

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenawald/Ashley Putnam; Feb 27

WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
John Singer Sargent: previously seen at the Tate Gallery in London, this show includes more than 100 paintings and watercolours by the American portraitist; to May 31

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Boris Godunov: by Mussorgsky. Conducted by Isaac Karabtchevsky in the widely-travelled Tarkovsky staging, revived by Stephen Lawless. Samuel Ramey sings the title role; Feb 23, 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PERSONAL VIEW DOMINIQUE MOISI

Plus ça change . . .

Modern international business and finance has much to learn from the power games and intrigues of 18th century European diplomacy

"The great powers constituted a kind of joint-stock company, in which all kept what they possessed, made profits according to their holdings, and prevented any of the associates from laying down the law to the others. This was called the balance of power, or the European equilibrium."

Frederick the Great, 1712-1786 — Mary Evans Picture Library

Written in 1885, Albert Sorel's masterpiece, *Europe and the French Revolution*, makes the political traditions of the *ancien régime* seem incredibly modern.

Yet the power games he describes relate much more to the world of business and finance in our global age than to the diplomatic conduct of modern democratic states.

If you look for the contemporary equivalent of Frederick the Great of Prussia, Catherine the Great of Russia or Maria-Theresa of Austria, you will not find them in the gilded palaces of our modern states but in the often spartan surroundings of chief executives' offices. Our "enlightened despots" are the likes of John Weston, chief executive of British Aerospace, Jürgen Schrempp of DaimlerChrysler, and Jean-Luc Lagardère, founder of Matra.

Those who are nostalgic for the intricate games of classical diplomacy, those who long for the time when abrupt alliance reversals and the building and dismantling of coalitions were accepted norms of conduct, can rejoice: mega-merger capitalism is for you.

It is tempting to compare the shareholders of today to the powerful but largely idle landed aristocracy of the past, defending their privileges in a selfish and short-term manner. Until 1914, the aristocracy in Europe filled the top positions of state and spoke the same language, French. They served their monarchs but their allegiance was more of a personal rather than national nature. They were the closest equivalent of a modern transnational elite. Their networks were defined by birth at least as much as merit. Their e-mail code was of a genetic nature.

The modernity of the past is no accident. It is highly symbolic of our global age that the traditional behaviour and attributes of classical states should be found within the world of business and finance today. The state is no longer what it used to be. Under the combined pressures of big business, international organisations and civil society, it has shrunk in terms of power and responsibility, at least in the democratic and successful part of the world. The work of diplomats is increasingly dominated by economic and financial matters, while "business leaders" are more concerned than ever with the evolution of the geopolitical setting.

Those nostalgic for the games of classical diplomacy can rejoice: mega-merger capitalism is for you

But if a comparison between the diplomacy of the *ancien régime* and the behaviour of modern chief executives makes sense, one should also be able to draw lessons from the mistakes and excesses of the past.

There are valuable lessons to be gained from understanding what went wrong in the diplomacy of the end of 18th century Europe.

By applying the rules of the diplomatic game in a mechanistic and cynical fashion, the monarchs of the *ancien régime* ushered in the French Revolution.

The partitions of Poland between 1772 and 1795 prepared the ground for the revolutionary behaviour of Bonaparte. By resorting to partition, first to settle differences, and then to prevent them, the European powers proceeded to divide up a state simply to maintain good relations among themselves. In the end, this process proved to be self-destructive for the diplomacy of the *ancien régime*. Napoleon followed in the footsteps of the greedy monarchs he deposed and went on to redraw the map of Europe.

Replace the word partition with merger, and one is confronted with the same risks and dilemmas as the geopolitics of the 18th century: a process pushed to extremes may become dangerous for those who act in an overly mechanistic manner.

In addition, an excess of cynicism and manipulation leads only to the destruction of any sense of trust.

When British Aerospace, for example, fooled everyone (but particularly the French and the Germans) by taking over GEC's Marconi defence business, (one presumes in the name of an industrial or national logic), it brought to mind Frederick the Great of Prussia and his cynical reversal of alliances – behaviour which may have produced short-term gains but which resulted in the isolation of Prussia.

Similarly, excessive concentration in the areas of energy or banking could produce very dangerous results.

Are modern business and financial leaders ignoring the lessons of classical diplomacy? Montesquieu, in his *Esprit des Lois* wrote: "There is a natural limit to conquest; it is fixed by the possibility of assimilation. What cannot be held should not be taken ... One must take care that in increasing actual greatness, relative greatness is not diminished."

Before engaging in ever more daring mega-mergers and acquisitions, chief executives would be well advised to reread Montesquieu.

The author is deputy director of the Paris-based Institut Français des Relations Internationales and editor of Politique Etrangère. He writes here in a personal capacity.

LETTERS TO THE EDITOR

Opposing forces over duty-free

From Mr Dex McLuskey.

Sir, The European Commission has yet again ignored the wishes of the EU heads of government, representing some 80 per cent of the Continent's citizens, by refusing to address properly concerns over job losses that an intra-EU duty-free ban on June 30 will cause.

Its report, published last week, ignores the wishes of all 15 heads of government, expressed in Vienna in December, that an extension is necessary to alleviate the employment problems that the ban will bring.

When you add up the figures for job losses in the Commission's analysis based on responses from just 11 member states, it comes to 53,000. Yet it describes this as "insignificant". That is not the opinion of Gerhard Schröder, the German chancellor, or Tony Blair, the UK prime minister.

Mr Schröder's office told me last week: "In the words of Queen Victoria, the chancellor is not amused. He won't accept the Commission's proposals and say 'okay, that's it'. It is in direct opposition to his will, and the Commission is not in compliance with all the governments of the EU.

"The Chancellor is looking for a compromise that allows the Commission to continue to work on the single market and on the other hand for an extension that allows the respective companies to cope with the formal ending of the regime. It also must allow a workable replacement regime, which isn't workable now."

Similarly, Mr Blair's office told me: "The British government is on record saying it wants the successor regime to be looked at again and we think more time is necessary for that. That's still going to be our position."

The UK Foreign Office has also acted to increase pressure on member states by instructing British ambassadors in the EU to make the UK's position clear.

This is not a matter for the Commission to decide. It is for the EU's finance ministers to debate at the next Ecofin meeting on March 15, and for the heads of council to ultimately consider in Cologne on March 24. The question is no longer centred on the issue of duty and tax free sales. It is now the Commission versus the elected heads of European governments. Both sides have much to lose.

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deputy editor,
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A heavy duty and surreal debate

From Mr Simon J. Ward.

Sir, Your Lex columnist is right to describe the debate on duty free as "surreal" (February 18). He might have gone on to say that nothing in the debate is more surreal than the attitude of the UK government, whose recent conversion to the pro-duty free lobby poses some difficult questions.

Why cavil about the successor regime when the problem has been known about for seven years? Have Customs & Excise officials done no work on a problem that has only a limited number of possible solutions?

Why support the continuance of duty-free which, by subsidising travel costs, supports the economics of smuggling alcoholic drinks? Why support a regime that encourages the uncontrolled sale of cheap cigarettes in the UK while publishing a white paper entitled "Smoking kills"?

Most of all, if the duty-free regime costs EU member states more than £2bn a year in lost revenues (as the Commission says) and the UK is responsible for one-third of this trade, why is the Treasury not eager for the regime to end in order to repatriate some of the revenue?

Simon J. Ward,
strategic affairs director,
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Mental laziness – truly the English disease

From Mr Michael Hardy.

Sir, The article by Martin Wolf, "L'Etat, c'est quoi?" (February 17), was an excellent piece of analytical journalism. Two comments may be made on the conclusions. First, at least the French were able to work out a definite, long-term policy and to pursue it. Second, the course they followed offered them a greater say over their destiny than would otherwise have been the case.

Compare the "Anglo-Saxons". The Americans are well placed on their own. But the British? Wasn't it Cyril Connolly who said that mental laziness was the English disease?

Michael Hardy,
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Yesterday the corner shop . . .

From Mr Mark Stephens.

Sir, For 11 years the UK was run by Margaret Thatcher, who applied the principles of running a corner shop to a nation of 56m. I suppose David Marsh's suggestion (Letters, February 15) that the European Commission (covering 370m) should be run by a employee of a multinational corporation is a natural progression.

Mark Stephens,
359 West Princes Street,
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From Mr Douglas Ellison.

Sir, David Marsh is living in a fantasy world. What politician would turn down the possibility of ruling nigh on 370m people, free from the discipline of the ballot box and with the power to force legislation to be adopted by member states immediately, irrespective of the opinions of not only elected national parliaments but supranational parliaments as well?

Would the European parties that have cemented their domination of personalities through the "closed list system" allow mavericks to upset their arrangements? The treaty of Amsterdam will grant the European parliament the right to appoint not only the president but also commissioners. This will lead either to the exclusion by party apparatchiks of the independent candidates Mr Marsh advocates, or to further incestuous cronyism.

The problems of mixing business and politics have been aptly demonstrated by New Labour. In the unaccountable and corrupt sphere of European politics, Mr Marsh's laudable suggestions are both impossible and ill-advised.

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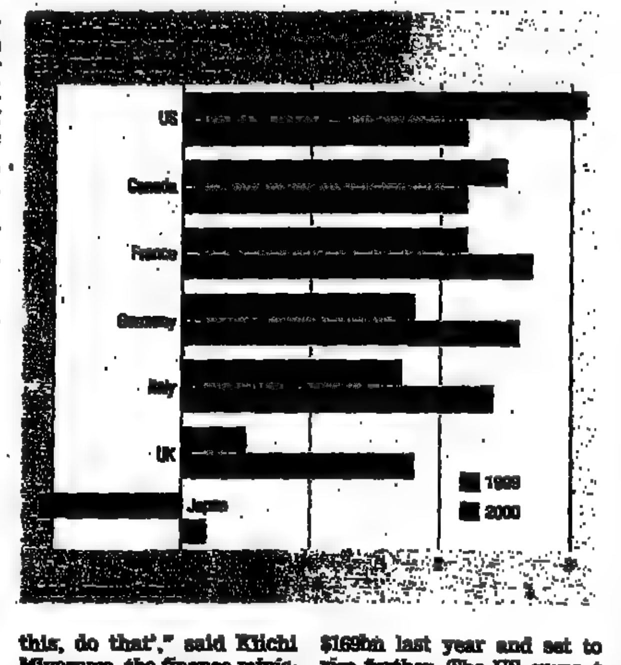
No meeting of minds

Despite the launch of the euro, European members of the Group of Seven remain unable to speak with one voice on the world economy, reports **Robert Chote**

Michael Schumacher, the former motor racing world champion, held his wedding reception at the historic Petersberg hotel near Bonn, where finance ministers and central bank governors from the Group of Seven leading industrial nations convened this weekend. Like Mr Schumacher, the G7 seems to spend much of its time going round and round in circles.



So at least it appears from their discussions on the state of the world economy. Once again, everyone was agreed that more should be done to put global growth on a strong and sustainable path. And once again, opinions differed as to where the responsibility should lie.

The seven were able to point to several favourable developments since their last statement in October: economic stabilisation in Asia, calmer financial markets in the mature economies, structural reform in Japan and lower interest rates across the industrialised world. "But financial market conditions have worsened in some regions and the outlook for global economic growth is somewhat less favourable," their latest communiqué said.

At recent meetings it has been Japan that has borne the brunt of calls for extra action, but on this occasion the tone towards Tokyo was noticeably friendlier. And of the yen, not a word said.

The ministers concluded that the short-term outlook for Japan remained uncertain, but they noted approvingly that the authorities had "adopted important steps to strengthen the financial system and macro-policies to reinforce growth led by domestic demand".

The Japanese conceded that they would soon be back in their colleagues' bad books if efforts to boost their economy flagged. "Looking at the communiqué, it does seem like it's saying: we have to do what we have to do," said Masayuki Matsushima, executive director at the Bank of Japan.

But still, the mood in the Japanese camp was noticeably happier than at previous gatherings. "The bottom line is they did not say 'do this, do that'," said Kiichi Miyazawa, the finance minister. "The consensus was that Japan has done what it can and that we could now only wait for results."

With Japan out of the spotlight for a change, the focus of attention switched to the latest evidence of deepening gloom in Europe. Figures last week showed the German economy shrinking by 0.4 per cent in the fourth quarter, the biggest decline in six years.

Michel Camdessus, the managing director of the International Monetary Fund, told the meeting that the European economy would grow by only 2 per cent this year, down from 2.6 per cent in 1998. According to officials in Bonn, the Fund sees growth of only 1.8 per cent for Italy and 2.2 or 2.3 per cent for France.

For the US at least, this is not good enough. Robert Rubin, the Treasury secretary, predicted another year of solid growth in the US this year. But he warned that the country could not be expected to propel the world economy forward single-handed, with its trade deficit reaching a record $169bn last year and set to rise further. The US current account deficit has widened as the crisis economies of Asia exported their way to recovery, while Japan and Europe have continued to run huge trade surpluses.

"It seems to us that Europe needs to play a much larger role in this process of absorbing exports," Mr Rubin said. "It is very important for the world that Europe get back on track."

Europe urged the US to boost domestic saving, while the US urged Europe to boost domestic demand

As the US turned its guns from the Pacific to the Atlantic, Europe's response was typically confused and contradictory. The assertion in the communiqué that euro-zone countries "agree on the importance of pursuing an appropriate mix of macroeconomic policies and structural measures aimed at promoting strong and sustainable domestic-led growth and fostering employment" suggested a greater degree of cohesion than there was.

Jean-Claude Trichet, governor of the Bank of France, dismissed US accusations that Europe had failed to act decisively. He argued that euro-zone interest rates had fallen by 25 per cent since August (100 basis points), while US rates had fallen only 14 per cent (75 basis points). So Europe urged the US to boost domestic saving, while the US urged Europe to boost domestic demand. "A rather classical debate," Mr Trichet observed.

Meanwhile, down a couple of flights of stairs, Oskar Lafontaine, Germany's outspoken finance minister, took a less sanguine view. Flanked uneasily by Hans Tietmeyer, the hawkish Bundesbank president, Mr Lafontaine pointed to the latest weak economic data and to financial market expectations that the European Central Bank will have to cut interest rates again.

"I believe it's completely indisputable that no-one can ignore a clear factual situation," Mr Lafontaine said.

When Mr Tietmeyer pointed out that Wim Duisenberg, the ECB president, had described the stance of monetary policy in the euro-zone as "appropriate and at the moment sufficiently accommodating", Mr Lafontaine countered that it was "self-evident" that there were different views.

There are different views, too, about exchange rate strategy. Mr Lafontaine did not waste too much breath on "target zones" on this occasion, but his enthusiasm for more formal co-operation remains undimmed. Mr Tietmeyer's hints that he is becoming uncomfortable with the euro's slide also point to problems ahead.

If anyone thought that the advent of the euro would allow Europe to speak with a single voice in the international arena, this weekend's gathering will have confirmed that this prospect remains a long way off. The contrast with the harmonious double act of Mr Rubin and Alan Greenspan, US Federal Reserve chairman, could not be more marked.

The pressure on Europe to get its act together can only intensify. The consensus view already sees US growth slipping a little below France, Germany and Italy next year. But if the bursting of a US equity bubble were to make the gap more dramatic, the need for coherent policies in the euro-zone would be all the greater to keep the world on track.

FINANCIAL TIMES

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High stakes at Rambouillet

It is a tall order to expect that by locking up two dozen Serbian and Albanian negotiators in a French chateau for 2½ weeks, they can settle a problem – Kosovo's relationship to Serbia – that is as old as the century. But, with the exceptional mobilisation of the diplomatic and military resources of the US, leading European powers, Russia and various international organisations, there is still a chance that it might work by the time the latest (and probably final) deadline for the Rambouillet talks runs out tomorrow afternoon.

The deadlock over inserting a Nato-led military peacekeeping force into Kosovo to supervise a political settlement between Serbs and ethnic Albanians has obscured the real negotiating progress that has been made. The institutions provisionally agreed at Rambouillet would give Kosovo's ethnic Albanian majority more self-government than before, while protecting the rights of Serbs and other minorities. They would give Kosovo a measure of economic and judicial independence from the rest of Yugoslavia. They would also devolve considerable powers over police, health and education to individual communes. This should prevent domination of one group over another in many of the sensitive aspects of daily Kosovan life.

One stumbling block remains over the nature of the review to take place after three years. The Albanians want a referendum on independence. The Serbs do not. The international mediators are drafting a fudge: the review, overseen by the international community, would "take account of the wishes of the people of Kosovo". Beyond that the Albanians will have to hope for changes in Belgrade, perhaps with President Slobodan Milosevic's departure from power, over the next three years. That is a hope Serbs could share.

But how to ensure that this political deal is carried out by a regime in Belgrade with a long record of backsliding? Only a Nato-led force can do this, according to the alliance partners. Belgrade remains adamant it will not let foreign troops in. Nato is now militarily ready to carry out its threat to bomb Mr Milosevic into compliance, if need be.

Nato has said, repeatedly, it will not "invade" Yugoslavia. Yet, as frequently, it threatens to bomb Yugoslavia into "inviting" its troops in. The apparent contradiction between these positions puts the alliance in a terrible quandary, which Mr Milosevic is all too well aware of.

But he cannot be sure Nato will not act, and wreak destruction on him. It is thus in his vital self-interest – if only at this late stage he will see it – to start discussing some effective guarantees for any political deal reached at Rambouillet.

All together now

Last week's proposals from Brussels to harmonise European Union accounting standards were bound to be contentious. After all, the net effect is to require European companies to conform more closely to the Anglo-American reporting tradition. It is for directors to answer not to bankers or the taxman, but to the owners – ie, the market.

It might seem curious, then, that the first objections were raised by UK finance directors, as reported in the FT on Saturday. But any European standard is bound to be a compromise. UK companies have been obliged to improve their own practices by the UK's Accounting Standards Board over the past decade. It is scarcely surprising if some of them, at least, regard the proposals as retrograde.

UK companies would see their headline earnings reduced by the proposals on deferred tax and the amortisation of goodwill. The case for this might be argued either way. But the fact remains that most German companies would find their own figures equally upset in other ways: for instance, through the abolition of reserve accounting, whereby unspecified sums are laid aside when times are good, to flatter the results when they are bad.

In some respects, the UK position might be seen as analogous to that country's stance on the euro: eager to influence, but reluctant to join in. Uniquely, the UK helps to formulate international standards, but sticks to its own version at home. It is not a sustainable position, nor does it deserve to be.

The issue of corporate accounting needs to be put into its wider context. Great things are expected of the European single currency. It is supposed to introduce transparency and accountability, and force European institutions – companies foremost among them – to squeeze out inefficiency and act more in the interests of customers and owners.

That will not happen automatically. Granted, companies across Europe are being subjected to a degree of harmonised inspection already. The big global brokers and investing houses are increasingly looking at the European equity market as a single entity, and reducing the earnings of, say, French, German and British oil or telecommunications companies to a common basis for purposes of comparison.

But analysts' spreadsheets are one thing, published accounts another. If directors are obliged to sign off accounts under a common standard that shows their company in an unflattering light, they will sit up and take notice. Indeed, if their remuneration is tied to increases in reported earnings per share they will be positively galvanised into action: and a good thing too.

On euro tiptoe

This week the UK government is expected to set out a plan for joining the euro-zone. But anxious voters can stay calm, because ministers are still hedging their bets.

The plan should explain what must be done between declaring an engagement and celebrating the union – and how long this will take. But the government now needs to say more.

In a paper in October 1997, the Treasury explained its five economic tests for embracing the euro. But there is also a sixth, over-arching test: the state of public opinion. Clearly, no amount of economic convergence could take the UK into the single currency, if a referendum were to decide against it.

Faced with this difficulty, Tony Blair, the prime minister, hopes that pressures from business, and a general recognition of a fait accompli in the euro-zone, will shift the polls towards joining. There is some evidence that this is happening. But the prime minister should now take a more decisive approach. Business attitudes, the public mood and market conditions could all be influenced by a political lead.

First, businesses will prepare more vigorously for the event if they think it will happen. Second, as the recent history of Italy and Spain shows, markets can help to bring about convergence when they see a political inevitability. And the UK government can help to bring its interest rates down to euro levels by maintaining a tight fiscal stance. Third, Mr Blair, more than most prime ministers, has the popularity and persuasiveness to shift attitudes if he really wants to.

Now is a good time to start. Of the five economic tests, the decisive one is that of economic convergence. Since the Treasury paper was written, the UK economy has moved significantly closer to that of the euro-zone. It is true that the UK remains near the top of its business cycle, with much lower unemployment than on the Continent; but its economy is no longer growing faster than its long-term trend rate. It may soon slow down to about the same pace as that of the euro-zone.

Long-term bond yields in the UK are a little more than half a percentage point above those in Germany, compared with a 1½ point gap in 1995-97. The UK base interest rate, at 5.5 per cent, has fallen steeply towards the euro rate of 3 per cent. And UK annual inflation, on a harmonised index, is only about 1.5 per cent compared with 0.8 per cent for the euro-zone. Low inflation could be a big help in clearing a path to the euro.

In other respects a gap remains, but it looks now as if it can, and should be bridged. Mr Blair must say so loudly.

Mortals need not apply

It is a job as difficult as that of any world leader. Whoever succeeds Jacques Santer as European Commission president will need the qualities of Superman, says Peter Norman

Wanted: European leader. The ideal applicant will have held high political office and should combine missionary zeal, brutish strength, a talent for administration, a legally trained mind, a gift for languages and televisual appeal.

Obviously, neither this nor any other newspaper will be carrying such an advertisement in its executive search columns between now and June. But such is the individual that leaders of the European Union's 15-member states should be seeking as the next president of the European Commission, the executive arm of the EU.

Last month's damaging motion of censure in the European parliament dimmed the already dwindling chances that Jacques Santer, the current president, would be reappointed for another five-year term from next January. Gerhard Schröder, Germany's chancellor, dealt the centre-right former Luxembourg prime minister a further blow when he declared: "One thing is certain: a conservative president of the European Commission from a small country must be succeeded by a social democrat president from a big country."

It will fall to the EU leaders' summit in Cologne on June 3 and 4 to nominate "by common accord" a successor to Mr Santer. Under the EU's Amsterdam treaty, due for ratification soon, the new president will then have to be approved by the European parliament.

Whoever clears these two hurdles can look forward to one of the most difficult jobs in the world.

"You are talking of Superman in a way," says Peter Ludlow, head of the Centre for European Policy Studies (Ceps), a Brussels think-tank. "It is very big job. The president is on the world stage and is rather like a head of government with diplomatic missions accredited to the Commission. But he or she lacks many of the powers that a head of government has."

At first sight, the job has huge attractions. There is a new sense of élan surrounding the EU since the launch of the euro, the European single currency, in January. The Commission can be seen at the centre of that dynamic enterprise.

It is also handling the negotiations on the EU's enlargement and should gradually become more involved in common foreign and security policies and the so-called "third pillar" law and order activities of justice and home affairs.

The Commission is more than a simple executive arm of the EU. It has considerable autonomous political power in the areas of competition and agricultural policy and great influence from its monopoly to make proposals in the EU.

"The Commission's greatest strength is that of the first mover," Mr Ludlow explains. "Nothing can really go forward in all main areas of EU activity without the Commission proposing."

Jacques Delors, the autocratic Frenchman who ran the Commission from 1985 to 1995, exploited these powers of proposal to the full to turn the Commission president into one of the three dominant figures in European politics, along with François Mitterrand, the French president, and Helmut Kohl, the German chancellor.

But that comparison shows how different things are now. Mr Delors succeeded through a mixture of visionary zeal and political flair that cloaked shortcomings in his administration of the Commission.

The regime of his successor has shown how the job is hedged around with restrictions and institutional constraints, making it more difficult than that of most national leaders.

There are immediate problems of image and morale. The clash with parliament has left the Commission bruised, under investigation and fearful of renewed attacks. Parts of the Commission stand accused of corruption, mismanagement and nepotism.

More fundamentally, the Commission president occupies an ambiguous constitutional position. Unlike a prime minister, he (and it has always been a he up to now) has no power to dismiss delinquent members of the governing "college", which is made up of himself and the other 19 commissioners. As *primus inter pares*, he can be outvoted and until now has had little control over the Commission's agenda.

The president has no parliamentary majority to back or sack him. Last month's vote in the European parliament was notable for the lack of any clear group that might be termed the "Commission party". Mr Santer survived the vote of censure but his position was not strengthened by the ordeal.

The president's position will strengthen somewhat if, as promised, the Amsterdam treaty is ratified in early summer. For the first time, he or she will have a say over who joins the college. The treaty provision that member states "shall, by common accord with the nominee for president, nominate" other Commission members should spare future presidents the problem of Roy Jenkins, president from 1977 to 1981, who was unable to dislodge entrenched Commission "barons" from their fiefs.

Another clause – stipulating that "the Commission shall work under the political guidance of its president" – could give the president greater control over the Commission's agenda. The treaty also acknowledges that the president can reshuffle tasks during a Commission's term of office, which should give future holders some capacity to punish incompetent or delinquent commissioners.

But the Amsterdam treaty is no panacea. "The danger is that

'You need someone omnipresent with an ability to appeal to people from Helsinki to Athens'

the strengthening of the presidency will not keep pace with the growing difficulties of the job," a senior official commented. A huge amount will depend on on the personality of the future incumbent, which brings us back to the choice facing the EU's 15 leaders.

In theory, the leaders should have an interest in appointing someone of the highest quality to the job. The Commission president – unlike the other members of the college – is automatically a member of the European Council, the EU's summit gathering and most exclusive club. For this reason, there is an understanding that candidates should either be former prime ministers or people of prime ministerial calibre. But past experience shows that the European Council does not always favour individuals with ideas and backbone.

Gaston Thorn was a weak president between 1981 and 1985. In 1994, Mr Santer was appointed as a "safe pair of hands" to succeed the powerful Mr Delors. Like Mr Thorn, his fellow Luxembourger, however, he lacked the big battalions of a substantial home base. The big question, as the leaders begin to consider the candidates, is: will they play safe again or look for someone more dynamic than the unfortunate Mr Santer?

Mr Delors' long term in office showed there are limits to power that even a strong personality would be wise to heed. He was at his most effective between 1988 and 1991, when he was busy helping craft economic and monetary union and could count on the support of Mr Kohl and Mr Mitterrand. Mr Delors' power declined when his ego grew too big and his ambitions too strident.

With hindsight, it is clear that Mr Delors also stacked up problems for his successor. Following the collapse of communism, Mr Delors pushed the Commission into accepting more and more tasks. Many of these were in the unfamiliar territory of eastern Europe, and its relatively small bureaucracy of about 16,000 was ill prepared for the job.

Mr Delors failed to prepare the Commission for its new management role. Together the Delors and Santer years have shown that the president has to be firmly in charge of the bureaucratic machine and have a good *chef de cabinet* running his private office as well as good relations with the Commission secretary-general in charge of the permanent civil service.

Looking beyond Brussels, the next president will be less able to count on the robust Franco-German support that underpinned Mr Delors' authority. To compensate, the new president will have to be skilled at using the media to communicate effectively – something Mr Santer has conspicuously lacked. "You need someone who is omnipresent – with an ability to appeal to people from Helsinki to Athens," one Eurocrat observes.

So who might that be?

Although Mr Schröder is maintaining a German claim on the job, the odds are on a southern country – meaning Spain or Italy – providing the next president (it is considered their turn).

Plenty of names have already come and gone. Felipe González, the former Spanish prime minister, was the frontrunner last summer. Antonio Guterres, the Portuguese leader, has ruled himself out of the race. Romano Prodi, the former Italian prime minister, appears to be focusing his ambitions on resuming his career in domestic politics.

Giuliano Amato, a former Italian prime minister, has some support although his former close ties with Bettino Craxi, the disgraced former Socialist leader living in Tunisian exile, could be a handicap.

Javier Solana, the well-regarded Spanish secretary-general of Nato, is perhaps the hottest tip of the moment.

But old Brussels hands warn against jumping to conclusions before the real horse trading gets under way. The post of Commission president may yet become enmeshed in the complex "Agenda 2000" negotiations on the future shape of the EU's budget, farm spending and structural funds.

Vanity and egos will inevitably play their part. As one veteran EU diplomat observed: "You need someone of superhuman capabilities to be Commission president. But if you ever found such a person, the heads of government would reject the candidate because they are not superhuman."

OBSERVER

Watching the Euro-watchdogs

Fraud-busting the European way is certainly a lucrative business. The five members of the *comité des sages* appointed to investigate claims of bungling and sleaze in the European Commission will pick up some useful pocket money for their pains.

The investigators, brought in as part of a deal to avoid a censure vote on the Commission by European members of parliament, are being paid a handy little monthly honorarium, plus general expenses and a daily working allowance. That works out at an annual rate of around €236,000 – though their jobs won't take a year – which would be rather more than the Commissioners earn.

The five men are, in any case, hardly flavour of the month everywhere in Brussels, accused by some MEPs of being toothless former European Union officials, too closely associated with the institution they're now examining. There's been muttering off-stage about one or two of them in particular, citing their alleged fondness for the little luxuries of life.

Mind you, the odd indulgence may not be totally alien to MEPs themselves. According to the European Court of Auditors, by the time they've picked up their salaries, expenses and allowances, a commissioner's €193,000-a-year salary looks like small change.

Foot down

Milan Beko, Serbian entrepreneur, former privatisation minister and current boss of state-owned carmaker Zastava, appears to be leading by example. He's forsaken his smart Audi for a Yugo, the butt of many motoring jokes the world over. "I urge all my colleagues to sell their cars and drive a Zastava," Beko earnestly proclaims from the driving seat of his inaptly named Yugo Florida.

In Kragujevac, an industrial town in central Serbia badly hit by international sanctions, Beko is having some success in turning Zastava around. Production is nowhere near the annual 200,000 output achieved in the company's best years but still well up on the few thousand made in 1998. Now Serbs can buy a Yugo without waiting for around $4,000.

While Peugeot appears to have dropped out of the running, Fiat – a former Zastava partner – is still interested in a deal that would allow the Serbian company to assemble the Fiat Uno from kits imported from Italy. Beko is holding out, however, for an agreement that would allow Zastava to produce the entire car.

One bit of the business that needs no help, however, is the weapons factory next door – also under Beko's management. Last week it trumpeted a new product – the M-93 multiple grenade launcher, said to be ideal for combatting "terrorists" and ready for export.

Air rage

If anyone thinks plain-speaking has gone out of fashion, they should head for the US District Court in Wichita Falls, north Texas, where Judge Joe Kendall will set them straight.

Finding the Allied Pilots Association in contempt of court over its recent 10-day "sick out" at American Airlines, Judge Kendall said the union "seems determined to fly American Airlines into the side of the mountain, taking themselves, the company, their co-workers and their customers with them".

The pilots were asking for pay increases for 150 of their colleagues due to be promoted after American's acquisition of Reno Air, a small west coast carrier. Weighing in to them, the judge warned that if their disruption continued, "all the assets of the union, including their strike war chest, will be capable of being safely stored in the overhead bin of a Piper Cub".

Kendall intoned: "When the pitch is 'pay us what we want or we will cost you more', it's the type of negotiation one usually sees when doing business with one of the Five Families in New York." Stop pussyfooting, judge. Why don't you tell us what you really think.

Farming furore

So what does European agriculture minister Franz Fischler think about today's planned siege of Brussels by 30,000 fed-up farmers? Asked for a response to a day of action against his reforms, he contents himself with a loud snort as he blows his nose.

But he insists he's taking the demonstration very seriously, knows the farmers are frustrated – and emphasises they have everything to gain from his plans. Farm product prices will fall but Fischler argues they'll be more than compensated through direct payments and an expansion of exports and production.

Tell that to the land army expected to turn up to make themselves felt and heard as farm ministers meet to agree a package of reforms based on Fischler's proposals. Such is the expected chaos that up to 5,000 armed police officers, supported by motorised water cannons, will be on duty.

So who's getting the most steamed up? Around 15,000 protesters are expected from France, 10,000 from Germany and 5,000 from Belgium. As for the British, about 35 are expected. Presumably, they're too poor to afford the fare.

The Financial Times 100 years ago

A Dubious Offer Entangles Royal Personages
What a sensational story could be told if the secrets of the courts of Europe were revealed in the daily press! A London firm is advertising single-stone diamond rings for five shillings (£0.25) "as supplied by us to His Imperial Majesty the Emperor of Germany, His Royal Highness the Prince of Prussia, Her Royal Highness Princess Hermann of Saxe Weimar, the nobility, celebrities etc." We must therefore suppose that the crown worn by the German Emperor cost at least half a sovereign (£0.50).

The Plague in India
Bombay, 21st Feb. The latest reports from the goldfields in Mysore show that the plague there has increased and is continuing to spread in spite of strenuous precautionary measures. The panic among the coolies continues, and the Mysore mine presents a desolate appearance owing to the exodus. Only the Ribblesdale and Crocker's shafts are still working. The disease is also spreading to the Champion Reef mine, the Reuters agency reports.

FINANCIAL TIMES
MONDAY FEBRUARY 22 1999

THE LEX COLUMN

A late call

Olivetti should have bid for Telecom Italia four months ago. In October, its target was a laughing stock after a year of boardroom battles. The prospect of bringing in Olivetti's cost-cutting chief executive *Roberto Colaninno*, and an *offer* worth €10 a share might just have been tempting at that time. Now, with the *highly respected Franco Bernabe in the* saddle and Telecom's share price at €9, the proposed bid looks underwhelming. A *premium of 10 per cent will not be enough* to win this battle, particularly since Telecom still trades on a deep discount to other *European telecoms operators.*

Olivetti will have to increase its offer if it is serious. Given the huge amount it *plans to borrow, that might seem impossible.* But Telecom's strong cashflow and the opportunity to strip its assets mean *that some increase should be financeable.*

That points to the most obvious way for Telecom to defend itself – by taking a leaf out of Olivetti's book. Telecom's balance sheet is seriously undergeared. It could rapidly add value for shareholders by increasing debt, thereby slashing its tax charge. One option would be to buy back shares; another would be to buy in the minority stake in Telecom Italia Mobile (Tim), its mobile telecoms subsidiary. Indeed, such a manoeuvre would underline the industrial weakness in Olivetti's plan, which envisages selling down the Tim stake.

With luck, shareholders will be allowed to decide this battle on its financial merits. But, as always in Italy, there are worries about interference. For a start, the government is siding with Olivetti. This is inappropriate given that Telecom is supposed to be a privatised company. Then there is the involvement of Mediobanca, the shadowy Milanese investment bank, in financing Olivetti's bid. For all the talk of Mr Colaninno representing the modern face of Italian capitalism, this smells much like *the old way of doing things.*

US 30-year Treasury bond
Yield (%)

Source: Datastream/ICV

US bonds

The more vigorous the US economy, the gloomier the Treasury market. Since *October, when the flight to safety pushed* US bond yields to new lows, the yield on 10-year notes has risen by 90 basis points *to more than 5 per cent, while the long* bond is once again flirting with 5½ per cent. And for good reason. US economic *growth continues to exceed all expectations.* While the service sector has not yet slowed down, it looks as if manufacturing is already *picking* up again. Industrial production has risen for four months in a row, and last week's lower-than-expected trade deficit showed exports to Asia strengthening too. With first-quarter gross domestic product growth likely to emerge at a robust 3 per cent, hopes of easier monetary policy have faded. Some Wall Street economists are even starting to mutter that the Federal Reserve will raise interest rates in May or June.

That may be too pessimistic. Friday's figures show that inflation, at 1.6 per cent, remains benign. Meanwhile, supply and demand for bonds is improving all the time as the size of the federal budget surplus is revised upwards. And the recent strengthening of the dollar will attract overseas funds back into the market, especially since 10-year Treasuries are now yielding 50 basis points more than UK gilts. But those longer-term positives are likely to be outweighed by the strong economy. Expect yields to grind *higher for now.*

Unilever

About time too. The only good excuse for Unilever not doing a share buy-back *has been Dutch tax law. Now that this* barrier is breaking down, its inhibitions should too. But £1bn would be niggardly *for a company with nearly £4bn in the* bank and a market value approaching £50bn. Ever since Unilever obtained nearly £5bn from Imperial Chemical Industries for speciality chemicals in 1997, it has struggled to spend it. Its biggest acquisition, of a Brazilian ice-cream maker, was less than £600m – roughly the amount added to the cash pile each year.

Unilever does not need to sit on any *cash.* It could buy in *10 per cent of its* equity and then spend up to £5bn on the likes of Reckitt & Colman without over*stretching. Interest costs would be cov*ered about five times by £3bn operating profits. If it spots a really big deal and needs to *issue shares, investors will back* a convincing case. Meanwhile, its paper should have been enhanced by an effi*cient balance sheet.*

Accounting standards

The accountants have a vision. One day every quoted company in the world will produce accounts under the *same* standards. Investors and analysts will be able to compare "apples with apples", with minimal adjustment of completely transparent company accounts. Nirvana may be only a few years away: the International Accounting Standards Committee is working on it. The final showdown will involve getting the SEC, the US stockmarket regulator, to allow companies to use international accounting standards to list in New York.

Meanwhile, creation of the single market has brought issues to a head in Europe. So far, international harmonisation has had the greatest impact on Continental companies, forcing more disclosure. Where the UK differs – on deferred tax, pensions and goodwill – the claim is that it does so for good reason. Although a suspicion lingers that UK companies are chary of anything that depresses earnings, they have accepted sweeping accounting reforms in the 1990s.

No doubt a series of compromises will follow, and the UK Accounting Standards Board may well sway the IASC on some *issues. Once there is consensus outside* the US, that final resolution can be thrashed out. A Brussels-based regulator *might help drive forward euro-zone com*pliance with international standards, but the main forum must be the IASC on *which the US and UK will maintain a strong voice.*

US steps up pressure on Serbs and ethnic Albanians

Stalled Kosovo peace negotiations extended until tomorrow

By David Buchan in Rambouillet and Guy Dinmore in Belgrade

The US criticised both Serbian and ethnic Albanian negotiators yesterday for blocking a deal in the Kos*ovo peace talks,* which are due to end tomorrow.

After foreign ministers of the Con*tact Group of mediating countries* extended the stalled negotiations for a further three days past a Saturday *deadline, Madeleine Albright, the US* secretary of state, returned to the Rambouillet chateau near Paris to *step up the pressure on both sides.*

The US and other Nato countries have threatened that they will launch *air strikes against* Yugoslavia if the Serbian side is to blame for thwarting the 2½-week negotia*tions,*

But yesterday Mrs Albright, who expressed confidence over the weekend at persuading the Albanian side to sign a political agreement giving Kosovo substantial self-government, expressed exasperation with the Albanians as well as the Serbs.

Speaking on the CNN television network, the US secretary of state said that Nato would not carry out its bombing threat if the Albanians continued to insist on an eventual referendum on independence. "We never said there would be bombing of the Serbs if there was a No answer from the Albanians," she *said.*

Mrs Albright said over the weekend it was only because the Alba*nian side had asked for more* time that she had bowed to pressure from mediators and the five European members of the Contact Group to extend the negotiating deadline.

Her remarks underlined the degree to which the US has overestimated its leverage on the Albanians, as well as the Serbs. The US in particular had wanted a quick agreement from the Albanians in order to make the bombing threat more credible to Belgrade.

After spending nearly three hours with Albanian negotiators, Mrs Albright had another meeting with Milan Milutinovic, the Serbian president, at Rambouillet. The Serbian leader maintained *Belgrade's* strong opposition to any Nato-led peacekeeping force.

He also accused Nato, and particularly the US, of playing "Mickey Mouse games" over the question of a peacekeeping force, an issue which he said Washington was using to distract attention from continuing Albanian objections to the political autonomy deal being negotiated at Rambouillet.

In Belgrade, the pro-government media yesterday claimed the Serbian delegation had saved the political negotiations from breaking down.

France, Britain and the US have troops ready to move into Kosovo, as the advance guard of an eventual 30,000-strong Nato peacekeeping force, very shortly after any agreement at Rambouillet. Nato has also assembled an aerial armada of warplanes in Italy and the Adriatic to launch bombing strikes if the talks end in failure.

Editorial Comment, Page 13

India and Pakistan end summit with pledge to hold more talks

By Mark Nicholson and Farhan Bokhari in Lahore

India and Pakistan yesterday pledged to step up efforts to solve bilateral disputes following the first visit by an Indian prime minister to Pakistan in a decade.

The most substantive bilateral *summit between* Indian and Pakistani leaders in almost 30 years ended with a pledge to begin talks *on security to build confidence* following both countries' nuclear test explosions in May last year. They *said confidence-building measures* would include giving each other advance warning of any ballistic *missile tests.*

But while full of positive symbolism and friendly rhetoric the summit proved to be short of specific measures to address differences that have dogged relations between the two countries for more than 50 years.

Mr Atal Bihari Vajpayee, India's prime minister, said: "I've been here 24 hours [and] I feel that in those 24 hours, the distance between Delhi and Lahore has become less."

Mr Vajpayee was greeted by Mr Nawaz Sharif, his counterpart, at the Wahga border post on Saturday while inaugurating the first bus link between the two countries since independence.

Mr Vajpayee's unexpected decision earlier this month to inaugurate the route in person catapulted the event *into becoming an impromptu summit,* which both leaders grasped as an opportunity to inject political will *into a dialogue that has faltered in* the wake of the nuclear tests.

In speeches over the weekend, *both leaders stressed their desire to* avoid nuclear conflict and address bilateral differences more vigorously.

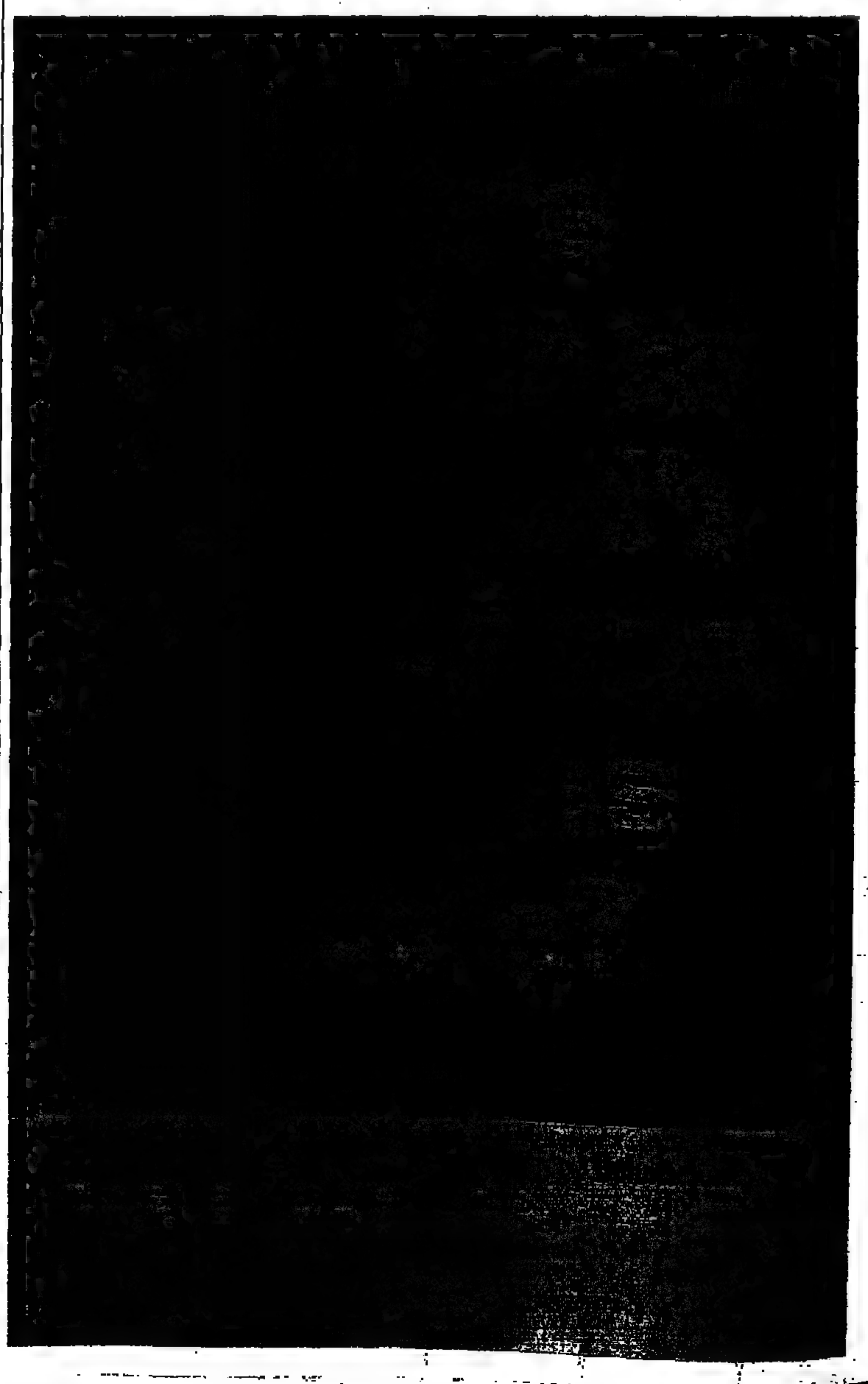
Mr Sharif told a press conference that the summit reflected "an earnest desire... to turn a new leaf in the chapter of India-Pakistan relations". Mr Vajpayee said: "We should walk together, but the steps should become faster." In a short "Lahore Declaration", the two leaders said they shared a "vision of peace and stability" while also recognising that their new nuclear status "added to their responsibility for avoidance of conflict".

The two-page document promised that both sides would "intensify efforts" to resolve all issues including the intractable dispute over Jammu and Kashmir, over which the two sides have fought two of their three wars.

Each promised to "refrain from *intervention and interference* in each other's internal affairs", to take "immediate steps" to cut the risk of *accidental nuclear* war; and to intensify their dialogue.

They agreed to upgrade talks begun after their *nuclear* tests to ministerial status. Sartaj Aziz, Pakistan's foreign minister, said the talks were likely to take place in Delhi next month.

Journey to reconciliation, Page 3



CONTENTS


Fenced off: Belgian police set up barbed wire barricades as 30,000 angry farmers are expected in Brussels today. Page 2 AP

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FT.com: the Financial Times web site; online news, comment and analysis.
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Surveys: details of forthcoming editorial surveys.
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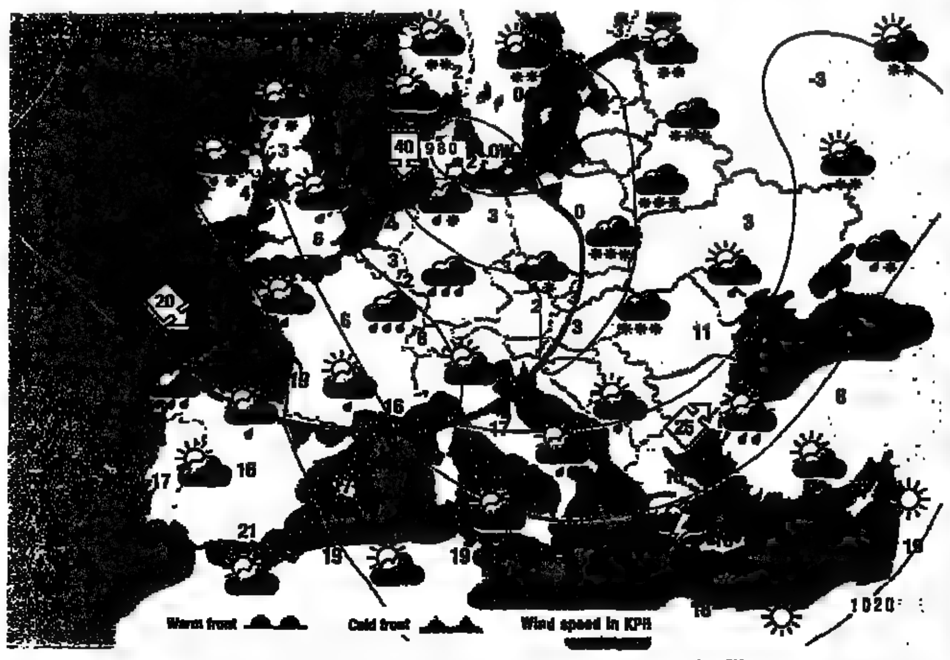
FT WEATHER GUIDE

Europe today

Much of Scandinavia and the Low countries will have sun and snow showers. *Germany,* Austria and Switzerland will be cloudy with outbreaks of sleet and snow, although Austria and Switzerland will have a greater chance of sunny spells. France will be sunny with showers, some of which could be heavy; with the best of the sunshine in the extreme south. Most of the Mediterranean will be dry and settled with some sunshine although the north coast of Spain, southern Italy and Greece are likely to have showers.

Five-day forecast

It will be unsettled with snow showers gradually moving eastwards into Russia. This will allow *Scandinavia and Germany* to become drier and brighter for a while but more rain will arrive by *the weekend. Showers will* become rather more widespread over the Mediterranean



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	26
Accra	Shower	32
Algiers	Sun	19
Amsterdam	Shower	3
Athens	Thunder	16
Atlanta	Sun	7
B Aires	Thunder	34
B.ham	Shower	4
Bangkok	Sun	33
Barcelona	Sun	19
Beijing	Sun	5
Belfast	Shower	4
Belgrade	Rain	10
Berlin	Sleet	3
Bermuda	Rain	21
Bogota	Cloudy	19
Bombay	Sun	33
Brussels	Sleet	3
Budapest	Rain	3
C.hagen	Snow	2
Cairo	Sun	21
Cardiff	Shower	5
Casablanca	Fair	18
Chicago	Fair	-2
Dakar	Sun	23
Dallas	Sun	21
Delhi	Sun	27
Dubai	Cloudy	27
Dublin	Shower	4
Dubrovnik	Shower	13
Edinburgh	Hail	3
Faro	Sun	19
Frankfurt	Hail	4
Geneva	Rain	8
Gibraltar	Sun	20
Glasgow	Hail	3
Hamburg	Sleet	3
Helsinki	Snow	-3
Hong Kong	Fair	18
Honolulu	Fair	27
Istanbul	Fair	13
Jakarta	Cloudy	30
Jersey	Shower	9
Johannesburg	Thunder	26
Karachi	Sun	29
Kuwait	Sun	26
L. Angeles	Sun	19
Las Palmas	Fair	21
Lima	Cloudy	26
Lisbon	Fair	17
London	Fair	8
Lux.bourg	Sleet	2
Lyon	Rain	8
Madeira	Fair	18
Madrid	Fair	16
Majorca	Sun	17
Malta	Fair	18
Manchester	Shower	4
Manila	Fair	32
Melbourne	Fair	27
Mexico City	Sun	24
Miami	Shower	20
Milan	Fair	18
Montreal	Sun	-8
Moscow	Snow	-3
Munich	Sleet	3
Nairobi	Fair	28
Naples	Shower	18
Nassau	Fair	23
New York	Cloudy	-1
Nice	Fair	16
Nicosia	Shower	17
Oslo	Sleet	2
Paris	Shower	6
Perth	Sun	32
Prague	Sleet	3
Rangoon	Sun	36
Reykjavik	Cloudy	-7
Rio	Thunder	31
Rome	Shower	17
S. Frsco	Fair	16
Seoul	Fair	5
Singapore	Fair	30
Stockholm	Snow	0
Strasbourg	Thunder	6
Sydney	Thunder	25
Tangier	Fair	18
Tel Aviv	Sun	19
Tokyo	Sun	11
Toronto	Shower	-8
Vancouver	Rain	11
Venice	Shower	10
Vienna	Thunder	4
Warsaw	Snow	0
Washington	Fair	1
Wellington	Fair	20
Winnipeg	Snow	-4
Zurich	Rain	5

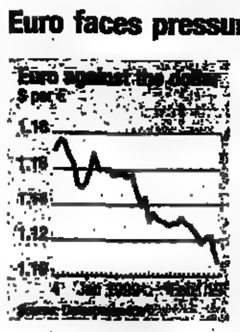
FINANCIAL TIMES
COMPANIES & MARKETS
MONDAY FEBRUARY 22 1999

INSIDE

Greenspan testifies to Congress

Alan Greenspan, Federal Reserve chairman, will deliver his semi-annual Humphrey-Hawkins congressional testimony on Tuesday and Wednesday. Analysts expect him to present a balanced outlook for the US economy, showing the Fed's caution about strong domestic growth and tight labour markets and the fragile international picture. **Markets week, Page 20**

Euro faces pressure from dollar



Currency analysts believe the euro will come under further pressure after Saturday's G7 summit, which called for all countries to do their bit to stoke up demand. This may force the European central bank to cut interest rates, making the euro vulnerable against the dollar. By the end of last week it was nearing the key $1.10 exchange level. **Currencies, Page 22**

HSBC to outline Asian debt exposure

HSBC is today likely to reveal that bad debts in the Asia-Pacific region have risen further in the second half, while loan loss provisions will bear heavily on profits. **Companies diary, Page 20**

Eyes on French and German data

European equity markets will pay more attention than usual to this week's economic figures, especially any sign of continuing weakness in France and Germany. The market has been unsettled by the steady stream of weak data in Europe, in particular last week's news that German gross domestic product had declined in the last quarter of 1998. **Euro-zone, Page 23**

Emerging markets tempt with yields

Emerging market governments are cashing in on the growing search for yield by European investors with a spate of debut bond issues in the euro. Although the amount of emerging market debt issued in dollars still exceeds that in euros, many emerging markets are keen to establish a benchmark early in the life of the new currency. **Emerging markets, Page 19**

Banks forced to issue bonds

Whether the £1bn ($1.63bn) mortgage-backed bond launched last week by Abbey National, the UK bank, will lead to cheaper mortgages is debatable, but it casts a spotlight on the growing asset-backed market. Several factors are boosting demand. Mortgage banks' margins are under pressure because of strong competition for loans; managements are keen to boost shareholder value and return on capital; and competition for deposits from non-bank rivals means banks need to seek funds from less traditional sources. **International bonds, Page 18**

Ciba expected to post lower profits

Switzerland's Ciba Specialty Chemicals, which terminated a proposed merger with rival Clariant last year, is expected to post lower results tomorrow because of increased competition in world specialty chemical markets and adverse currency factors. **Companies diary, Page 20**

FT GUIDE TO THE WEEK

– full listings Page 32

WORLD CRACKDOWN ON CORRUPTION
Al Gore, US vice-president, chairs the first global conference devoted to fighting corruption on Wednesday. It will be attended by representatives of 79 governments and scores of international organisations.

US FINANCIAL REFORM
The US Senate banking committee is expected to review a new bill to reform laws demanding separation in the financial services sector on Thursday. Congress has tried to reform the Depression-era laws, for more than 20 years.

IRANIAN LOCAL ELECTIONS
Municipal elections open in Iran on Friday, the first since the Islamic revolution in 1979. Local councils will be given more powers in a move seen as a big step towards greater democracy.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

CONTINENTAL EUROPE'S LARGEST BANK AIMS TO UNIFY GROUP AND CUT COSTS

UBS to integrate global operations

By Clay Harris,
Banking Correspondent

UBS, continental Europe's largest bank, is planning to integrate its worldwide operations in an effort to save costs and underline the unity of the group.

The integration plan will be announced next month with the Swiss bank's 1998 results. It will curb the relative autonomy enjoyed by its Warburg Dillon Read investment banking and UBS Brinson asset management arms.

UBS's top management has been persuaded that the revenue gains already achieved by these businesses, as well as private banking and the Swiss *retail banking network*, need to be matched by similar benefits on the cost side.

The plan is being put forward after a painful year for UBS, which was created by the merger of Swiss Bank Corporation and Union Bank of Switzerland. Inadequate risk controls, manifested by losses on derivatives and exposure to the US hedge fund Long-Term Capital Management, resulted in the departure of Mathis Cabiallavetta, chairman, and three other senior executives.

In Switzerland, a tighter approach to credit and the prospect of job losses through *rationalisation of the retail* network, coming on top of the foreign misadventures, have soured opinion about the bank.

In January, the bank confirmed that the risk profile of WDR had been reduced in the wake of the LTCM involvement, a legacy of the premerger UBS which led to a SFr984m ($715m) charge.

Decisions will now be more centralised, although UBS will insist it should not be seen as an assertion of Swiss control *over international operations.*

Integration, however, is likely to entail further job losses. It will also pose challenges *for management accus*tomed to a more devolved style, especially at the old SBC, which brought in new talent with the acquisition of businesses such as O'Connor, the US derivatives firm, and Brinson, the fund manager.

During the autumn market jitters, the bank had to squash speculation that the future of Warburg Dillon Read was in doubt.

The period of uncertainty brought an opportunistic feeler from *Morgan* Stanley Dean Witter, which was politely rebuffed. Further integration would also appear to commit *UBS to its current composition* of businesses – thwarting, for example, any serious review of whether the Swiss retail network fits well with the rest of the group.

The problems of disentangling an integrated banking operation were illustrated by Barclays' piecemeal disposal of BZW. Nearly a year after completion, Barclays is still fulfilling some back office functions for Credit Suisse First Boston, the new owner of the European equities business.

Pakistan power project may have to reschedule debt

By Peter Montagnon and
Farhan Bokhari in Karachi

Hubco, Pakistan's flagship private power project in which the UK's National Power has a dominant stake, will have to reschedule $500m in outstanding commercial debt as a result of its bitter dispute with the government on corruption and electricity pricing.

Kurshid Husain, Hubco finance director, said the government – which last year mounted an aggressive campaign against the charges levied by private power producers – was trying to drive Hubco into default in order to dictate pricing terms.

Debt restructuring, which *would have a global impact on* privately financed power projects, was now "inevitable", he said. When the Hubco project was negotiated in the mid-1980s, it broke new ground through the innovative use of World Bank guarantees and rapidly became a model for such projects. National Power is understood to be considering a spin off of its overseas operations.

The dispute, which delayed Pakistan's recent agreement with the International Monetary Fund, has now gone to international arbitration, but Mr Husain said Hubco continued to face harassment, which aggravated its financial difficulties.

The tax authorities continue with their attempts to freeze its bank accounts, in defiance of a court order preventing coercion in their pursuit of corruption allegations going back to the time of the government of former prime minister Benazir Bhutto, he said.

Hubco is continuing to service its debt on which the last instalment falls due in six years' time, he added, but eventually this would be no longer possible. However, the government has yet to begin negotiations with Hubco on how to reduce the cost of the power it supplies to the state-owned Water and Power Development Authority (Wapda), which is responsible for distribution.

Elimination of losses at Wapda is a central target of *Pakistan's IMF programme*, but there is strong public opposition to power tariff increases and local economists believe Wapda needs to buy power at a lower price to be viable.

Hubco was prepared to consider other cost-saving measures besides the rescheduling, which would be conducted separately to previously announced negotiations with the London Club of commercial creditors. These options could include switching to domestically produced natural gas from imported oil, which would cost $40m initially but save on foreign exchange, Mr Husain said.

But it was not prepared to accept a cut in the 18 per cent maximum permitted return to shareholders, he said.

Niall Fitzgerald: funds would be deployed to 'push harder' in emerging markets Ashley Ashwood

Unilever set to unveil £1bn stock buy-back programme

By William Lewis and Andrew
Edgecliffe-Johnson in New York

Unilever, the Anglo-Dutch consumer group, is close to announcing the first stock buy-back programme in its history.

An announcement could come tomorrow when the detergent and ice cream producer is due to disclose its 1998 earnings.

Unilever yesterday declined to comment, but people close to the company suggested that it was considering buying back at least £1bn ($1.6bn) worth of *its stock.*

Speculation about a buy-back by Unilever has been growing in recent weeks. The company has yet to state how it plans to use the near-£4bn cash pile it raised by selling its speciality chemicals business in July 1997 to Imperial Chemi*cal Industries, the UK group.*

Unilever's complex dual tax structure has until now been seen by some observers of the company as a barrier to it buying back part of its own stock. However Unilever executives are recently thought to have found a way round the problem. Unilever is listed on both the London and Amsterdam stock exchanges.

One person close to the company said that while the decision to announce a buy-back had been taken, "all things can change if the market expresses any thoughts of concern".

There has been a marked step-up in buy-back activity in Amsterdam over the past year, as Dutch companies have found ways around existing rules. Philips and Royal Dutch Shell are among the groups to have asked shareholders for *permission to return capital.*

The tax law, which makes standard share buy-backs highly unfavourable to Dutch investors, is to be changed.

At the time of the £4.9bn speciality chemicals disposal, Niall Fitzgerald, Unilever's co-chairman, said the funds would be deployed to "push harder" in emerging markets. Since then, the excess funds have also allowed Unilever to step up its spending on marketing and promotion.

Last year, Mr Fitzgerald said he would return cash to shareholders within "two to thee years" if no suitable acquisitions could be found. News of the buy-back plan may damp expectations of substantial acquisitions by the group.

Lex, Page 14

United set to buy Sunstrand in deal worth $4bn

By William Lewis in New York
and Nikki Tait in Chicago

United Technologies, the industrial group, is today expected to announce the acquisition of Sunstrand, the Illinois-based aerospace components manufacturer, in a deal likely to be valued at $4bn.

Both boards were said to be meeting over the weekend and were expected to approve the deal – the latest example of consolidation in the aerospace sector. However, people close to the transaction warned yesterday that it could still be halted.

Sunstrand has a market capitalisation of approximately $3.2bn, and while exact financial details could not be established, one person close to United said it would be paying close to $4bn.

Sunstrand would fit well with United's Pratt & Whitney business unit which makes aircraft jet engines and spare parts.

The group is a big supplier to the aerospace industry, and its products include aircraft actuation systems, auxiliary power units and fluid systems.

In 1998, more than 60 per cent of its $2bn sales came from aerospace customers, with the remainder accounted for by some general industrial manufacturing interests. Boeing accounts for about 10 per cent of revenues, although a smaller proportion of profits, which reached $227m last year.

United's other divisions *manufacture* elevators and escalators, heating and air conditioning equipment, helicopters and propellers.

Sunstrand's shares have been boosted in recent days by takeover speculation, with the stock gaining more than $5 on Friday, to close at $58.

Mooted buyers included AlliedSignal and Lockheed Martin, as well as UT. However, analysts suggested that, in the wake of recent consolidation in the aerospace sector, some potential acquirers could be deterred by antitrust issues.

United's stock price also closed up, $2⅝ at $125⅛. Last week the Hartford-based group said that plans to sell off its auto parts unit were progressing, with the first round of bidding complete.

DANIEL BÖGLER
GLOBAL INVESTOR

Profit from the prophets

Do analysts add value? Stockmarket practice and academic theory are sharply divided on this question. Investment banks and brokerage houses spend billions of dollars a year analysing securities, presumably because they think it helps their clients generate superior returns. Yet if you believe, as most academics do, that markets are reasonably efficient, then investors cannot trade profitably on the basis of public information, such as analyst recommendations, since all such data is instantly incorporated into share prices.

Several studies carried out in the late 1970s backed the academics, by appearing to show – embarrassingly – that the average stock which has no analyst following it actually outperforms the average stock that does. However, new research by Brad Barber, a professor at the University of California, Reuven Lehavy, an accounting professor at Berkeley, and two colleagues, provides some much needed relief for Wall Street *et al.* Not only is their study larger and more rigorous than any previous one; it suggests that following analysts' share tips can be hugely profitable.

The four professors studied more than 360,000 recommendations made by more than 4,000 US equity analysts between 1985 and 1996. Each stock was given a rating – from one for a "strong buy" to five for a "strong sell" – based on the average advice of all analysts following it. The professors then constructed five portfolios, grouping the highest-rated firms into one, the next best into a second and so forth. They then monitored their performance, with stocks moving between them as they fell in and out of favour.

The results surprised even the authors. The first portfolio of "strong buys" and "buys" *earned an average annual* return of 18.8 per cent over the 11 years, beating a broad US stockmarket index (the Wilshire 5000), which turned in 14.5 per cent. The last portfolio of "sells" underperformed dramatically, averaging only 5.8 per cent. As most *institutional investors* would kill to beat an index by a few basis points, the size of these returns is hard to overstate.

To make sure their results were not a fluke, the professors tookcontrolled various factors, such as analysts' tendency to favour larger companies. They only rebalanced the portfolios at the end of the trading day on which a recommendation became public, to exclude any return investors might have earned from having advance knowledge. Even after those *adjustments the top "buys"* produced an average annual return of 4.2 per cent above the risk-free rate of interest.

To give their research a practical application, the authors then proposed a trading strategy: buy the first *portfolio, sell short the fifth* and you should generate an annual average return of 12.2 per cent, or 11.8 per cent after controlling for market risk, size and so forth.

Unfortunately there are two snags. The first is that the abnormal returns are most pronounced among small and medium-sized firms, which stands to reason since these are less well followed, giving analysts more scope to add value. For the few hundred largest firms, comprising 70 *per cent of the US market's* capitalisation, the study finds no reliable differences between "buys" and "sells".

Second, to garner those splendid returns requires a very active trading strategy, turning over your entire portfolio up to four times a year. *The resulting transaction* costs gobble up virtually all of the extra return.

This neatly explains why this apparent market inefficiency persists – it is too costly to arbitrage away. That does not make the research worthless, says Professor Lehavy. Managers considering buying back or issuing stock might want to use this information. Big institutions probably have lower transaction costs than the study assumes, and could thus trade profitably. Even retail *investors*, assuming they wanted to trade (and were thus committed to paying transaction costs) should buy highly recommended stocks and sell those out of favour. The billions lavished on analysts seem a good *investment after all.*

Can Investors Profit from the Prophets? Working paper submitted to the Journal of Finance.

BTR Siebe may sell off £1.5bn of assets

By Michael Peel in London

BTR Siebe, the engineering group, is thought to be considering the sale of more than £1.5bn worth of businesses that were part of BTR before its £9.5bn merger with Siebe.

The aim of the divestments would be to create a controls and automation equipment group capable of competing with such rivals as Siemens of Germany, the Swiss-Swedish ABB and Emerson Electric of the US.

Analysts said the group might this year sell most of BTR's automotive and specialist engineering divisions, which have combined annual turnover of about £2.2bn.

Controls and automation products account for about three-quarters of the sales of BTR Siebe, compared with 90 per cent of the turnover of Siebe before the deal.

It is thought that BTR had offers for some businesses, including parts of its automotive and specialist engineering divisions, before the deal with Siebe was announced. It is understood that Tyco International, the US conglomerate, bid for BTR's flow control business, part of the £1.4bn turnover control systems division.

The merged group is now analysing ways of increasing shareholder value, including possible disposals. The review is in its early stages, as the board has met just once since the merger was confirmed by a court hearing less than three weeks ago. But the group is thought almost certain to sell the old BTR automotive division, which makes polymers, sealings equipment, drive trains and anti-vibration systems.

The division is seen by analysts as too small to compete long term in a sector that is undergoing consolidation. "The automotive business is a top 40 global supplier [to car manufacturers]," said one analyst. "But that is not high enough."

Analysts think the division could raise a sum close or equal to its annual sales of £1.3bn if sold to a larger automotive components supplier. This year, the businesses, which have a geographically broad sales base, made a first-half operating profit of £47m on sales of £651m.

In specialist engineering, the group is thought to be reviewing a possible sale of its paper technology, pollution control and switchgear businesses, which could raise a total of about £500m. The division's rail business, which makes signalling systems, brakes and platform doors, is thought less likely to be sold.

Analysts said the timing of the sales could be tricky to manage. Some of the businesses are highly profitable, and any disposal programme would probably be earnings diluting. But the group is thought willing to accept short-term dilution in pursuit of longer-term growth of its core businesses.

It will use the money from disposals to make bolt-on acquisitions, and will also consider returning cash to shareholders.

Nomura abandons William Hill offering

By Elizabeth Robinson in London

The 90,000 would-be investors in William Hill, the bookmaker, are to get their money back after the flotation was aborted.

They will also receive a total £300,000 in interest payments and betting vouchers worth £20.

The flotation was abandoned after Nomura, the Japanese bank, decided at the eleventh hour to sell the UK's second-largest bookmaker to CVC and Cinven, two private equity firms, for £825m.

The change of course came last Thursday when Warburg, the lead manager to the float, announced that it had failed to attract sufficient institutional interest for the offer of shares in the UK's second-largest bookmaker. Instead of the 155p-175p indicative range, Warburg cut the offer to 135p, reducing by more than £100m the price which Nomura had hoped to achieve from the sale. This give Schroders, its rival investment bank, its opportunity to suggest a deal with the private equity firms to Nomura.

At 135p William Hill would have been capitalised at £405m, giving the company, which has £375m debt, an enterprise value of just under £800m.

Nomura bought the business for £730m in 1997 from Brent Walker.

Even at the lower price Warburg had stood to make about £13m in fees for the float, just marginally down from the £15m it would have gained if the shares had been sold at the mid-range price.

Warburg is now in talks with Nomura over an abort fee, and although it will argue its case on the basis of its advisory role, its team of 30 sales people and the issue of the sale prospectus, it concedes that the fee is likely to be "modest".

In contrast, Schroders wrapped up the sale within 48 hours, and will earn less than Warburg despite its success.

Small investors who applied will receive refunds and interest payments from Warburg. The £20 betting vouchers will come from William Hill.

John Brown, the bookmaker's chief executive, said: "We know that there are some disappointed investors out there who wanted shares in William Hill. We're effectively saying thank you for your support, here's a chance to make some money out of us after all."

Warburg is returning small investors' money with interest by March 1, when the shares were to start trading. For those investing the minimum £1,000, the interest payment is £1.90.

Charles Schwab, one of the four share shops for the issue, said that the main concern of retail investors phoning its helpline yesterday was when they would get their money back.

He said that of the 13,000 applications made through its share dealing service, about 7,000 were nominee accounts.

These accounts were credited yesterday, with interest to follow.

William Hill is hoping its betting voucher will placate the small investors who applied for 124m shares of the 300m on offer.

The offer attracted more than 300,000 inquiries, many from the bookmaker's customers after a poster campaign in William Hill's 1,500 shops.

Against the odds: the £825m William Hill deal has been grabbed from under the nose of Warburg Dillon Read PA

Move on Sidanco tests Russian law

By Andrew Jack in Moscow

Creditors led by BP Amoco have succeeded in appointing their choice of a bankruptcy administrator to manage the troubled Russian oil giant Sidanco, in what could prove the most significant test so far of the country's recent insolvency laws.

BP Amoco and a group of foreign creditor banks fought for the nomination of an outside insolvency practitioner, over-ruling the alternative candidate initially appointed by Vladimir Potanin, whose Interros group is Sidanco's largest shareholder.

The minority shareholders now face a battle with representatives of the Russian government to ensure their administrator is endorsed by the bankruptcy court when it meets on March 2.

Sergei Sereda, head of work-outs in the Moscow office of Arthur Andersen, was named following strong representations from BP Amoco.

Interros controlled 46 per cent of Sidanco, and the Sputnik fund of Boris Jordan, a banker, a further 10 per cent via a Cyprus-based company called Kantupam, giving them control. However, the balance of power shifted with the appointment of a creditors' committee in which BP Amoco and other Western creditor banks hold six of the 11 seats.

The size of Sidanco's debts is in dispute, but the company indicated it was about $470m, including $155m owed to Western banks, $49m to Uneximbank, controlled by Mr Potanin, and $160m to shareholders including BP Amoco and Interros. There is a further Rbs356m ($15.4m) owed to Uneximbank and Rbs1.12 bn in commercial instruments.

The bankruptcy of Sidanco at the end of last month was triggered by a petition from Beta-Eko, an obscure company owed a symbolic sum, which is believed to be linked to Interros. Other leading creditors supported the procedure as a way to attempt to manage the debts and allow Sidanco to survive.

Royal Bank may quit custody business

By Andrew Bolger

Royal Bank of Scotland is considering quitting the intensely competitive global custody business by selling RBS Trust Bank, currently the custodian of more than £300bn of assets.

Royal Bank said yesterday it was conducting a strategic review of its global custody operations – which analysts believe could fetch about £300m – but stressed a decision had not yet been made.

However, the Edinburgh-based bank seems likely to withdraw from what has become a high-volume, low-margin business increasingly dominated by large US operators such as Chase Manhattan, State Street and Bank of New York.

RBS Trust Bank is one of the UK's biggest custody businesses, handling the assets of the pension funds of more than half the companies in the FTSE 100 index.

Its fund administration system supports about 20 per cent of the UK's collective investment market.

Royal Bank created the business in 1997 when it acquired the custody business of SG Warburg and Mercury Asset Management.

Mercury, now owned by Merrill Lynch, the US investment bank, retained convertible loan stock which could convert into a stake of up to 30 per cent of the business.

In spite of the size of the business, competitive pressures have depressed profits.

Last year, Royal Bank's investor services division made pre-tax profits of £5m, following three years of losses. The division has just under 1,200 employees.

As well as outright disposal, the strategic review will also consider merging RBS Trust Bank with another large custody business, the group retaining a minority stake.

Royal Bank's decision to review its global custody business is in line with its strategy of focusing on retail and corporate operations.

Last year the bank sold its 33 per cent stake in Newton Fund Management to Mellon Bank of the US for £56m.

Baillie Gifford to launch life fund

By Jane Martinson, Investment Correspondent

Baillie Gifford, the independent fund manager, is expected to announce today that it is launching a life company in order to expand in the occupational pensions market.

The Edinburgh-based company, which manages about £16bn in assets, said it had decided to create a life business to take advantage of tax benefits available for such companies.

The new company will be used as the group's main way of providing defined contribution pension schemes, where individual members bear the investment risk connected with their pension scheme contributions.

Half of Baillie Gifford's funds are managed on behalf on pension funds on a defined benefit basis, the dominant form of provision in the UK. In this model, the pension provider bears the investment risks and offers members a set level of benefit.

But many industry consultants expect defined contribution to grow much faster than defined benefit schemes over the coming years.

Gavin Gemmell, a partner of the firm, said last week that it had decided to join many of its rivals in trying to compete in the defined contribution market because of its growth potential.

"It's growing quite fast and we want to take advantage of that," he said.

The new life company will cover some £300m of the company's existing managed fund business. Mr Gemmell said he expected this fund to increase to about £700m by the end of the year.

The company, which enjoyed better than average performance in its flagship pooled pension fund last year, has no plans to enter the retail business, an area expected to grow as a result of recent government proposals for pensions.

Baillie Gifford is only authorised for institutional business.

Centrica eyes RAC's services arm

By Joel Kibazo

Centrica, the gas distribution and energy-related products group, is understood to be considering a bid for the Royal Automobile Club's motoring services arm.

The move follows a government decision this month to block the RAC's sale to Cendant, the US consumer and business services group.

Cendant had agreed to pay £450m but pulled out after the government ruled that it would have to sell its own Green Flag motoring services business if it wanted the RAC. The Royal Automobile Club then announced plans to list the unit in the summer but did not rule out a trade sale.

Analysts said Centrica's interest is in line with its strategy of becoming one of the UK's biggest providers of household services.

With around 15.5m customers in the UK, the company, which was demerged from British Gas, has already made an aggressive push into the financial services market. Its British Gas division has already become involved in the home security market.

"Centrica already has a base to build on in customer services and this would be an extention of that strategy," said one observer of the company.

But Centrica, which reports full-year figures on Wednesday, is not the only group that has expressed an interest in the RAC Motoring Services in recent weeks. Venture capital groups including Cinven, the Prudential's PPM Ventures arm and Schroder Ventures are all understood to be interested in making a bid.

It had been feared that legal actions against the RAC by dissident members would deter some companies from bidding.

A listing is expected to value the unit at about £330m, against £400m or more which analysts believe a trade sale might raise.

Raw to launch video service for investors

By Jane Martinson

Warburg Dillon Read and BT Alex Brown, the investment banks, have signed up to a new company which aims to film their internal morning meetings for institutional investor clients across Europe.

Raw Communications, which was founded a year ago, aims to provide high-quality videos of the meetings to clients including Merrill Lynch Mercury, Schroders, Prudential and Morgan Grenfell Asset Management. Fund managers can hear the research or market reaction of individual analysts using an indexed video installed via a private internet network.

Ab Banerjee, a former employee of the Financial Times and chief executive of Raw, said he hoped to sign up another four brokers shortly. The company is founded on the premise that companies, brokers and fund managers want to improve their communications.

New ABP chief to emphasise expansion

By Tim Burt in Stockholm and Charles Batchelor in London

Bo Lerenius, the new head of Associated British Ports, is expected to emphasise international expansion when he takes over as chief executive of the UK's largest ports operator this spring.

Mr Lerenius, currently vice-chairman of Sweden's Stena Line, the world's biggest ferry company, believes the group can build on last year's acquisition of American Port Services, the US car terminals group, with further overseas deals. "We will look at continuous expansion with an international perspective," he said.

Mr Lerenius, whose surprise appointment was announced last week, will join the ABP board later this month and take over full responsibilities later in the spring.

Shares in ABP fell almost 5 per cent when Mr Lerenius's appointment was announced just a week before the group reports its annual results. The City had expected the managing director of the ports division to get the job.

Mr Lerenius spent five years running Stena, where he pushed through a restructuring designed to cut costs by SKr350m ($43.6mm) a year and merged its English Channel routes with P&O.

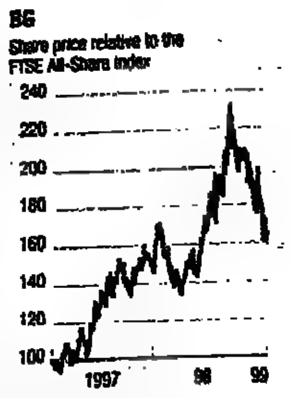
Mr Lerenius said he would concentrate on three broad strategic areas at ABP. "We need to look at what we can do internationally; evaluate how to improve the domestic ports business in the UK; and thirdly, look at integrating port services," he said.

Mr Lerenius described the acquisition of APS as a first step, adding that the group would press ahead with a project to develop a car terminal at the Belgian port of Zeebrugge.

APS is known to have looked at expansion opportunities in Chile and Brazil.

COMMENT

BG



With the oil price depressed, these are hard times to promote BG, which includes the exploration and production business of the former British Gas. But investors should not allow market jitters to put them off. First, the company is partly protected from low oil prices because its E&P arm is exposed to higher-priced gas contracts. Furthermore, BG has reduced production costs and enjoys strong output growth thanks to the relative immaturity of its fields. BG should consider expanding this business. Fears that the cautious management will blow away its newly-won credibility by overpaying for Lasmo or Enterprise look overdone.

Second, investors can seek comfort in the low-risk earnings generated by BG's regulated transmission business in the UK: Transco. Here there are several pluses. The company has shown itself willing to tighten its balance sheet to reduce its cost of capital. It has scope to pursue this further, given net debt of some £4bn compared with a market value of £14bn. This is paramount in a regulated industry, where a company's returns are linked to the regulator's assumptions on cost of capital. Transco should also be reaping the benefits of cost cutting – 2,500 redundancies were targeted for 1998 – and further efficiency gains are in prospect. Services, such as pipe maintenance, could be injected into joint ventures with other utilities, thereby reducing overall costs.

William Hill

Unloved smaller company is taken – or in William Hill's case, stays – private. No change there then in UK investor sentiment. William Hill's fate shows that debt-servicing machines, in mature markets, remain more attractive to financial buyers than stockmarket investors. Warburg Dillon Read may have thought sentiment was turning, thanks to lower UK interest rates. But this was over-optimistic, especially as it was so easy to see Nomura wanted to sell out quickly. It has made well over £100m on its £200m equity investment in October 1997.

Cinven and CVC Capital Partners are taking quite a risk in paying £825m. They assume that William Hill has seen a step change in operating profits – to more than £90m – and that there is growth in parts of the business. They will have to be patient. Meanwhile, let those juicy interest payments roll on its £500m debt.

NEWS DIGEST

TOBACCO

Imperial to farm out UK pensions management

The trustees of the £2.3bn Imperial Tobacco Pension Fund have decided to wind up their internal investment management function and put out to tender control of the fund's UK assets, comprising 83 per cent of the total.

The trustees said global markets had become so complex and specialised that the fund's small in-house management team, although able and highly experienced, did not have the research and analytical resources needed to manage investments successfully for a fund of this size.

Mike Huckman, chairman of the trustees, said: "By using external investment managers, we will gain greater flexibility and reduce our current exposure to a single investment style." External managers are already used for investment in overseas equity markets and for property.

Established in 1929, the Imperial fund pioneered modern pension management when in 1948 it appointed George Ross Goobey as its first full-time investment manager. He persuaded the trustees to sell all the fund's gilt-edged stocks and re-invest in equities, and later property.

This radical move attracted wide publicity and Mr Ross Goobey became known as the father of "the cult of equity". The wisdom of the change became apparent when inflation started to erode the returns from gilts while equities surged ahead.

The Imperial fund has 21,000 pensioners, 2,500 employees and 27,000 deferred pensioners. The trustees, who have been advised by William Mercer, the actuarial and investment consultants, will appoint up to six specialist fund managers. **Andrew Bolger**

SUPPORT SERVICES

3i leads purchase of Shorterm

Institutions led by 3i, the venture capital group, have acquired Shorterm Group, a regional engineering contract employment agency, and intend to expand it nationally. The deal is worth £17.5m, including the undisclosed acquisition price and financing for the expansion. The business, whose clients include Siemens, Racal, Railtrack, British Aerospace and London Underground, has annual turnover of about £30m and operates mainly in southern England and the Midlands.

It is being bought from John White, the retiring managing director who is to be replaced by Jim Clarke, previously a senior executive at Hays, the logistics and services group. 3i is providing nearly £9m with additional funding coming from Crédit Agricole Indosuez and Lombard NatWest. **Virginia Marsh**

INSURANCE

Aegon looks to UK

Aegon, the Dutch insurer which agreed this week to pay $9.7bn for Transamerica of the US, said it was "very interested in expanding in the UK," where it already owns Scottish Equitable. Donald Shepard, head of Aegon's US businesses and a member of its executive board, said in London: "That would be right at the top of our list." Aegon was also keen on making an acquisition in continental Europe, but prices were too high.

Mr Shepard also gave assurances about jobs in the combined Aegon-Transamerica businesses in the US. Although San Francisco's famous Transamerica pyramid would become US headquarters, he expected all other functions of the two groups' activities to remain in their current locations. **Clay Harris**

MEDIA

Pro Sieben sharply higher

Pro Sieben, the German commercial broadcasting group, announced marked increases in 1998 pre-tax profits and sales, despite suffering a decline in television viewers at its main channel.

Sales at the Munich-based company, which owns the popular, youth-oriented Pro 7 channel, rose 6 per cent to DM1.97bn. Pre-tax profits increased 24 per cent to DM316m. Georg Kofler, chief executive, said the group would achieve further double-digit earnings growth this year. **Frederick Stüdemann, Berlin**

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COMMENT

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NEWS DIGEST

AIR FRANCE

Shares expected to soar on first day's trading

Shares in Air France are expected to rise strongly today on their first day of trading on the Paris Bourse. The French government disclosed over the weekend that 2.4m small investors had applied for shares in the national carrier, with the tranche set aside for them subscribed more than 12 times. It said it was increasing the number of shares to be sold to these small investors by 1.97m to nearly 22m. It described the operation as "a very big popular success".

The offering, which will put a minority of the company's capital in private hands, is the first significant privatisation transaction of 1999. Earlier this month, the government priced the initial public offering at €14.20 a share for institutions and €14 for individual investors. It said this valued the company at FFr20.5bn (€3.1bn, $3.4bn).
David Owen, Paris

EGYPTIAN BREWING

Al Ahram to buy rival

Al Ahram Beverages Company, Egypt's biggest brewer, is to cement its market dominance by buying-out its main rival and creating a strategic alliance with another. The company has agreed to buy the Nile Brewery from a private sector consortium in a deal worth E£55m ($16m) including expansion costs, and to create an alliance with El Gouna Brewery with the aim of greatly expanding its distribution network.

Both the Nile and El Gouna breweries are under construction, but are expected to begin production this year. ABC, which was the state-owned monopoly until it was sold to the Luxor Group in 1997, is determined to confront vigorously any attempts to break its control of the market. The company has 90 per cent of the alcoholic and 95 per cent of the non-alcoholic drinks market in Egypt.

The Nile Brewery has planned capacity of 600,000 hectolitres of non-alcoholic beer, which will greatly increase ABC's current total capacity of 1.5m hl of alcoholic and non-alcoholic beer. **Mark Huband, Cairo**

OIL SERVICES

Aker Maritime warning

Aker Maritime, an oil services unit of Aker RGI, the Norwegian holding company, has warned that continuing low oil prices will prevent it from reaching its NKr1bn ($127m) pre-tax profit goal by 2000, despite a doubling of profits last year to NKr706m and further cost cuts this year.

The gloomy outlook followed a week in which Norway's three oil companies all reported falling profits for last year and plans for sweeping restructuring programmes and thousands of job losses in response to the low oil price.

Aker Maritime's net profit last year more than doubled to NKr417 from NKr184m, while revenues rose 43 per cent to NKr19.7bn but the company faces the challenge of filling its order books amid an expected fall in oil activity worldwide, and a decline of up to 50 per cent on the Norwegian shelf alone. At the year-end, the company's order book had fallen to NKr14bn from NKr16.2bn a year earlier, reflecting increasing uncertainty in the oil industry.

As a result, the company is expected to announce job losses within a year, particularly at its Norwegian construction yards. **Valeria Sköld, Oslo**

HEAVY INDUSTRY

MHI set to reduce forecasts

Mitsubishi Heavy Industries, Japan's largest machine manufacturer, confirmed speculation that it might be forced to cut its earnings forecast for this year because of the impact of the strong yen and bigger than expected losses on plant construction projects in south-east Asia and the Middle East. The group declined to specify the size of the revision, but said it was possible it fell into a loss in the second half. This would mark the company's first half-year losses since its rehabilitation in 1964.

A profits revision would be another blow to the Mitsubishi *keiretsu*, the industrial group that also includes Mitsubishi Motor, Mitsubishi Oil, which recently merged with Nippon Oil, and the Bank of Tokyo-Mitsubishi. Mitsubishi Motor, in which MHI owns nearly 30 per cent if affiliates are included, is expecting losses of Y9bn ($75m) on sales of Y2,320bn this year.

MHI said in October it expected pre-tax profits of Y65bn on sales of Y2,650bn, based on an exchange rate of Y120 to the dollar. The company said that a Y1 movement in the exchange rate raised or lowered pre-tax profits by Y2bn, but refused to comment on a report in the Nihon Keizai newspaper that earnings would fall to Y40bn this year. **Alexandra Harney, Tokyo**

NEW ZEALAND TV

Sky Network earnings jump

New Zealand pay-TV company Sky Network Television has recorded a substantial rise in earnings since it became a subsidiary of Murdoch-controlled Independent Newspapers last year. Sky reported a net profit of NZ$15.3m (US$8.3m) for 1998, up from NZ$500,000 in 1997. Independent Newspapers bought control of the company last year and subsequently sold 15 per cent to the public. Directors said the rise was due to a 10 per cent gain in subscribers which led to a 20 per cent increase in revenue to NZ$212.4m. The profit included an unrealised foreign currency gain of NZ$4.5m. **Terry Hall, Wellington**

SWEDISH COMPUTER SERVICES

Millennium boosts WM-data

WM-data, the Swedish computer services company, said pre-tax profits jumped from SKr570m in 1997 to SKr932m ($116m) last year, boosted by companies upgrading their IT systems for the millennium and strong home computer sales. Total sales rose to SKr12.38bn from SKr7.95bn, with earnings per share up from SKr5.56 to SKr9.12. The company raised its dividend to SKr2.25 from SKr1.40.
Nicholas George, Stockholm

Toyota may sell shares in offshoots

By Gillian Tett and Alexandra Harney in Tokyo

Toyota Motor is considering selling shares in subsidiaries to compensate for an estimated Y300bn ($2.5bn) shortfall in pension reserves, and has called on the government to develop a scheme allowing companies to use cross-shareholdings as pension reserves.

Japan's largest manufacturer of motor vehicles is the first to use Japanese accounting rules to reveal the size of its pension underfunding problem.

The move, which comes as the government debates how to resolve the problems of pension under-funding and the cross-shareholding system, underscores the problems facing Japan's corporate pension system.

Analysts said while most companies face under-funding, Japanese accounting rules have allowed them to withhold details about the size of the liabilities.

Although pension provision in the private sector is estimated at about Y70,000bn, the total shortfall is now calculated at between Y40,000bn and Y80,000bn, according to Ken Okamura, strategist at Dresdner Kleinwort Benson.

Other analysts said the total shortfall could be as large as Y100,000bn. Tim Marrable, analyst at Warburg Dillon Read, said: "If Toyota has Y300bn, I wouldn't be surprised if a company like Nissan with a much weaker balance sheet could have as much as Y1,000bn [in under-funded pension liabilities]."

The government is drawing up plans to help companies deal with this shortfall by implementing a US-style "defined contribution" scheme next year, where employees accept the risk that pension fund investments can fall below expectations. At the moment, Japanese companies use a "defined benefit" scheme where companies assume the burden of shortfalls.

To remedy this problem, Toyota and other companies are considering selling shares in subsidiaries to make up for the shortfall.

MSDW executives pick up $17m each

By Tracy Corrigan in New York

Morgan Stanley Dean Witter rewarded its two top executives for guiding the securities firm safely through last year's turbulent financial markets with pay packages of close to $17m each, up 7 per cent on the previous year, but shifted the structure of pay to increase the equity component.

Philip Purcell, chairman and joint chief executive officer, and John Mack, president and joint chief operating officer, each earned a base salary of $775,000 and a bonus of $8.1m.

In addition each was awarded restricted stock of $4.4m, and options valued at $3.6m, increasing the equity component from 32 per cent the previous year to 47 per cent.

Furthermore, under a restoration option plan predating the merger of Dean Witter with Morgan Stanley, which compensates executives for taxes incurred on exercising options, Mr Purcell also realised a further $40m last year. Neither Mr Purcell nor Mr Mack has sold stock.

Morgan Stanley came through the difficult market conditions of last autumn without suffering the heavy losses in fixed income that afflicted many rivals.

KOREA GOVERNMENT APPOINTS ARBITRATORS OVER HYUNDAI TAKEOVER OF LG SEMICON

Mediators to rule on electronics deal

By John Burton in Seoul

Mediators are to try to resolve a dispute over the financial terms of the takeover of LG Semicon by Hyundai Electronics, which would create the world's second biggest memory chip producer.

The government-brokered merger, announced in December, is the centrepiece of South Korea's corporate restructuring programme to reduce overcapacity in key industries. But a disagreement over the value of LG Semicon has stalled merger negotiations, which the government wants completed by March 7.

Hyundai, Korea's biggest conglomerate, has offered to pay up to $1.2bn for the 60 per cent of LG Semicon owned by the LG group, another leading conglomerate. The Hyundai offer is close to LG Semicon's current stock price.

But LG is demanding at least $3.5bn for its stake. Financial advisers to LG say the stock price undervalues LG Semicon when global prices for memory chips are near a cyclical bottom but are expected to recover soon.

The government has decided to appoint a six-member arbitration panel, including a government representative and one each from Hyundai and LG along with three from the nation's credit rating agencies, to complete an evaluation of the acquisition by February 28.

If either party refuses to accept the panel's decision by March 7, the government has threatened to impose financial sanctions similar to one that state-run banks took in December by cutting lending to LG when it initially resisted the proposed takeover by Hyundai.

LG's advisers have complained about the absence of open bidding for the company, which could raise its market value, as the government has selected Hyundai Electronics as its merger partner. The high price demanded for LG Semicon would also reflect productivity gains from the merger.

LG is demanding an all-cash settlement, while debt-heavy Hyundai wants to offer a combination of cash and convertible bonds in the new enlarged chipmaker. Hyundai may also offer its stakes in domestic telecommunications operators LG is interested in acquiring.

Analysts say it will take several years for the merger to produce synergy effects since it is difficult for the two chipmakers to integrate their operations now because they use different production technologies.

"There will be little material benefit in the short term, but there will be opportunities for cost savings later as Hyundai and LG will be able to share facilities once they move to the next-generation of memory chips," said Jonathan Dutton, electronics analyst at Warburg Dillon Read.

INTERNATIONAL BONDS MORTGAGE LENDERS ARE UNDER PRESSURE TO RAISE CHEAPER FUNDS

Abbey highlights asset-backed bonds

By Khozem Merchant

Whether the £1bn mortgage-backed bond launched last week by Abbey National leads to cheaper mortgages is debatable, but it casts a spotlight on the UK's growing asset-backed market.

Several factors are boosting demand. Mortgage banks' margins are under pressure because of strong competition for new loans; managements are keen to boost shareholder value and return on capital; and because of competition for deposits from non-bank rivals, such as Egg, the Prudential's new direct banking arm, banks are under pressure to seek funds from less traditional sources.

Traditional lenders are also under pressure from "sub-prime" market lenders, which give mortgages to customers often turned away by the former. Sub-prime lenders lack a retail funding base and therefore have been the most frequent issuers of mortgage-backed bonds.

Abbey's mortgage-backed bond, its second in 12 months and the largest in the UK, follows comments by Woolwich that its link-up with a US partner could lead to a bond backed by home loans. Northern Rock, a medium-sized UK mortgage bank, has also said it may securitise its home loans.

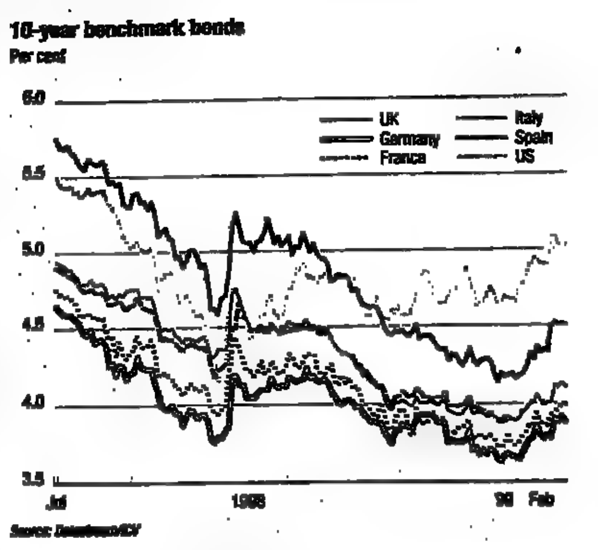
"Clearly, asset-backed bonds are going to be a tool for the future and we want it to be available when the time arises," says Gareth Jones, at Abbey National. He says securitisation gives the bank a diversified source of funding and the opportunity to manage its balance-sheet more efficiently.

Mortgage-backed bonds suit fast-growing ex-mutuals like Northern Rock because they offer a new source of funds. Northern Rock is well capitalised and, like Abbey, the crucial consideration is how to fund an increase in the volume of its lending.

Northern currently turns down one-third of applications because of poor credit risk. By using asset-backed bonds it can accept these applications but pass on the risk to the market.

An allied factor is the high cost of new retail funds. Over the past 12 months these have been more expensive than the wholesale money markets because direct providers, such as Egg and Halifax Direct, are paying interest rates on savings accounts that exceed Libor. This is encouraging groups such as Northern to tap wholesale markets more aggressively and consider securitisation.

Balance sheet management is also one of the attractions of asset-backed bonds, which allow issuers to transfer mortgages and other receivables with good underlying cash-flow from their balance sheets to special purpose vehicles.



SPVs, which stand legally removed from their originators, launch bonds that are often rated AAA because they are backed by the asset's cash-flows, such as mortgage repayments. The proceeds go to the originator, while the cash-flows go to the bond-holders.

Banks thus release capital previously put aside on their balance sheets in case of default. They are required to put aside this "regulatory capital" by the Bank of International Settlements in Basle, and by meeting these Basle standards they are also able to improve returns on capital.

Abbey's £1bn bond freed-up £45m, which it will use for giving more mortgages.

By using its existing capital, Abbey also avoids raising new equity.

"The key question is, what is the cost of selling assets to institutions as opposed to keeping them on your balance sheets," says Alexander Justham at J.P. Morgan, which led Abbey's issue.

For investors, the attraction of mortgage-backed assets is that they are "highly rated debt instruments that provide a yield pick-up over similarly rated debt", says Ganesh Rajendra at Merrill Lynch.

They are also protected if the originator experiences a deterioration in its credit, as the SPV is legally separate. One downside is that such assets are illiquid, with a shallow secondary market. Ironically, says Rajendra, this illiquidity is one reason why they attract a premium.

Securitising mortgages is common in the US, where up to 40 per cent of home loans are repackaged. In the UK, the proportion is just 3 per cent, but this is way ahead of the euro-zone markets where changes in the legal environment are forecast to boost issuance.

Last year, European asset-backed volume reached $40bn, up from $33bn in 1997, and is forecast to rise to $57bn this year. The UK accounted for a quarter of this issuance, down from two-thirds five years ago.

Mortgage-backed securities formed the biggest issuance category. In the UK last year, mortgage-backed bond issuance totalled $3.9bn, compared with $3.3bn the previous year.

Securing more flexible funding makes banks more competitive and therefore able to offer better products.

Thirty-year fixed-rated mortgages are common in the US. They are rare in the UK but may become less so if improved capital management feeds through into more competitive pricing.

But Mr Jones at Abbey National says: "This does not necessarily translate into cheaper mortgages."

German food and drink industry consolidates

By John Willman, Consumer Industries Editor

Two-thirds of Germany's larger food and drink companies are planning acquisitions this year in a wave of consolidation driven by the need to improve competitiveness in the European single market.

A survey by PwC, the business advisers, and the Federal Confederation of the German Food and Drink Industry says four out of five of the largest companies – those with turnovers of more than DM500m (€256m, US$284m) – are planning acquisitions. The most active sectors will be confectionery, soft drinks, spirits, brewing, delicatessen and fish.

The fragmented German consumer goods sector is still dominated by small owner-managed companies, many regionally based. Germany has proved relatively impervious to the large international food and drinks groups, with German consumers remaining loyal to local and regional brands.

But with European retailers increasingly looking to reduce their suppliers to a handful of companies capable of delivering across the EU the pressure is on to grow, said Darius Kianzad, head of PwC's consumer goods team in Germany.

Last year 24 per cent of food and drink companies made acquisitions.

"As well as the usual takeovers we will increasingly see mergers of equals which will allow companies to achieve critical mass through exponential growth," Mr Kianzad said.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, February 19, 1999. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	EURO €	YEN (X 100)
Afghanistan	(Afghani)	7740.13	4750.00	5270.36	3940.93
Albania	(Lek)	227.398	139.550	154.836	115.780
Algeria	(Dinar)	102.630	63.1050	70.0186	52.3563
Andorra	(French Fr)	9.6336	5.9120	6.5596	4.9050
	(Sp Peseta)	244.357	149.958	166.386	124.416
Angola	(Read) Kwanza	418590.2	257128.0	285295.4	213331.1
Antigua	(E Carib $)	4.3997	2.7000	2.9958	2.2401
Argentina	(Peso)	1.6288	0.9996	1.1092	0.8293
Armenia	(Dram)	830.035	509.380	565.183	422.617
Aruba	(Florin)	2.9168	1.7900	1.9861	1.4851
[illegible]	(Aus $)	2.5631	1.5698	1.7395	1.2996
Austria	(Schilling)	20.2088	12.4017	13.7603	10.2893
Azerbaijan	(Manat)	6436.55	3950.00	4382.72	3277.19
Azores	(Port Escudo)	244.431	150.000	166.432	124.451
Bahamas	(Bahama $)	1.6295	1	1.1096	0.8297
Bahrain	(Dinar)	0.6143	0.3770	0.4183	0.3128
Balearic Is	(Sp Peseta)	244.357	149.958	166.386	124.416
Bangladesh	(Taka)	79.0306	48.5000	53.8135	40.2388
Barbados	(Barb $)	3.2590	2.0000	[illegible]	1.6593
Belarus	(Rouble)	358490.1	220000.0	244101.0	182527.2
Belgium	(Belg Fr)	59.2436	36.3570	40.3398	30.1643

		£ STG	US $	EURO €	YEN (X 100)
Greece	(Drachma)	472.738			
Greenland	(Danish Krone)	10.9209			
Grenada	(E Carib $)	4.3997			
Guadeloupe	(French Fr)	9.6335			
Guam	(US $)	1.6295			
Guatemala	(Quetzal)	11.1373			
Guinea	(Fr)	2135.46			
Guinea-Bissau	(CFA Fr)	983.350			
Guyana	(Guyanese $)	265.282			
Haiti	(Gourde)	27.4372			
Honduras	(Lempira)	22.8296			
Hong Kong	(HK $)	12.6238			
Hungary	(Forint)	369.000			
Iceland	(Icelandic Krona)	116.866			
India	(Indian Rupee)	69.1234			
Indonesia	(Rupiah)	14421.1			
Iran	(Rial)	4888.50			
Iraq	(Iraqi Dinar)	0.5066			
Irish Rep	(Punt)	1.1586			
Israel	(Shekel)	6.6362			
Italy	(Lira)	2843.63			

CROSS-BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Astra (Sweden) Zeneca (UK)	Merger	Pharmaceuticals	$35bn	Delay downplayed
Aegon (N'lands)	Transamerica (US)	Insurance	$9.7bn	Seeks critical mass
Duke Energy (US)	Endesa Chile (Chile)	Power	$2.1bn	Bid for control
Arica (Chile)	Units of Inchcape (UK)	Bottling	$750m	LatAm disposals
Credit Suisse AM (Switz)	Warburgh Pincus AM (US)	Financial srvcs	$650m	Consolidation
Royal & Sun Alliance (UK)	Tyndall (Australia)	Insurance	$483m	Consolidation
Chesapeake (US)	Field Group (UK)	Packaging	$360m	Increased offer
Shorewood Packaging (US)	Field Group (UK)	Packaging	$360m	Trumped by above
British Airways (UK)	Iberia (Spain)	Airlines	$330m	9% plan agreed
Lufthansa (Germany)	Hudson General (US)	Airport services	$134m	Via GlobeGround

ectronics deal

backed bonds

try consolidates

Olivetti's earthquake shakes Italian capitalism

The Telecom Italia bid is a calculated risk whose success depends on shareholder value and industrial strategy, says Paul Betts

The flotation 16 months ago of Telecom Italia was described as "the mother of all privatisations" but even the most sophisticated business minds in Italy would never have imagined it would have led so quickly to such a transformation in Italian corporate culture.

By launching a L102,000bn ($58bn) bid for the privatised group on Saturday, Roberto Colaninno, chief executive of Olivetti, has provoked what is tantamount to an earthquake in the traditionally closed and incestuous world of Italian capitalism dominated by a few big influential players and their political sponsors.

Mr Colaninno, the 56-year-old businessman from Mantua in northern Italy who rescued Olivetti from financial collapse, cuts an unusual figure as a corporate raider. "I remember saying when I came to Olivetti two years ago that when I had completed my task I would return to run my medium-sized company," he said yesterday.

So what changed his mind? After completing the recovery at Olivetti – a task involving shedding assets, forging international alliances and reaching a strategic telecommunications partnership with Mannesmann of Germany – Mr Colaninno said he had to decide on the next move for Olivetti.

"The strategy was simple: we wanted to grow even more in telecommunications," he explained. After considering several options, including foreign investments, the solution, he said, was obvious.

Since its privatisation, Telecom Italia had been left with a highly fragmented shareholding base, with core shareholders accounting for barely 7 per cent of its equity and the rest spread among more than 1.5m small shareholders.

It had also suffered considerable internal turmoil as it sought to change its old public monopoly culture. Chairmen and top managers came and went while the telecoms market both in Italy and abroad became ever more competitive and open.

Telecom Italia was ripe for takeover. "It was cheap, it offered tremendous opportunities and Italy needed to find a way of resolving the instability of the company because it was too strategic for the country," he said.

That prompted Mr Colaninno to make his move. "It was an extraordinary opportunity and I decided to take it," he said. His highly leveraged bid proposal – it still requires approvals from the government, which owns a "golden share" in Telecom Italia and the stock market watchdog before it can be launched formally – is also a calculated risk.

"If I don't win the battle, I will have lost nothing and at least I would have tried. The agreement with our German partner Mannesmann is that they will take over our stake in Olivetti's Omnitel and Infostrada telecommunications ventures if we gain control of Telecom Italia. If not, we will continue as before with these two ventures," he explained.

Mr Colaninno acknowledged a bid for Telecom Italia would have stood a better chance and commanded a lower price six months ago, when the privatised group's shares hit a low after the resignation of Gian Mario Rossignolo, its controversial chairman

Franco Bernabe, the 50-year-old chief executive of Eni, the oil and gas group, was subsequently appointed chief executive of Telecom Italia to revive morale and refocus strategy.

Telecom Italia's Franco Bernabe (left) faces a hostile bid from Olivetti's Roberto Colaninno

Mr Bernabe's appointment was welcomed by the markets and Telecom Italia's share price rose more than 40 per cent in three months. Mr Bernabe immediately decided to halt his predecessor's ambitions to invest in pay television and reorganise the group.

But now he faces a hostile bid from Mr Colaninno. At €10 a share, the bid offers shareholders a meagre 10.5 per cent premium to Telecom Italia's share price at Friday's close. It also consists of 60 per cent payment in cash, and the rest in bonds and shares of an Olivetti unit called Tecnost, which manufactures lottery and football pools electronic ticket distributors, to be used as a vehicle for the proposed takeover.

Mr Bernabe says the offer is not in the interests of Telecom Italia shareholders because it greatly undervalues the company. Shareholders would also end up with shares in a highly leveraged company with ensuing risks.

The other main issue, which could also determine the government's attitude in the battle, is the industrial strategy proposed by the two competing sides for the longer term development of Telecom Italia.

Mr Colaninno is banking on his successful record at Olivetti to woo shareholders: Mr Bernabe on his equally successful record at Eni and the fact that he is to disclose on Wednesday his strategic industrial plan for Telecom Italia.

Mr Bernabe has so far not disclosed his defences against Olivetti but he is understood to believe that the battle for Telecom Italia will ultimately be won on the two fundamental issues of shareholder value and industrial strategy.

These two issues are also fundamental to restore credibility to the so far unhappy privatisation of Telecom Italia.

Italian premier backs 'entrepreneurial courage'

By James Blitz in Rome

Massimo D'Alema, Italy's prime minister, has indicated strongly that he supports Olivetti's bid to take control of Italy's main telecommunications company, saying he has an "appreciation for the courage of a group of people, entrepreneurs and managers who want to acquire and run a big company like Telecom Italia".

The premier's comments, reported at the weekend, suggest he believes a successful Olivetti bid would amount to a serious reverse for the old guard of Italian capitalism – led by groups such as Fiat – that have seats on the Telecom Italia board despite having only a small share in its capital.

However, Mr D'Alema's view is not shared across government. Senior officials at the Italian Treasury, led by the powerful figure of Carlo Azeglio Ciampi, made clear last night that it was too early to say how they viewed the $58bn bid by Olivetti.

The opinion that the government and the Treasury take of the takeover battle could be decisive for its outcome.

This is because the Treasury continues to hold a 3.4 per cent stake in Telecom Italia which it has pledged to sell this spring.

An investment bank is set to be appointed to advise on the sale in the next few days.

"The advice that we get, and how we respond to it, will be a very important signal to the market of the way things might go," said a senior Treasury official last night.

Italy's Ministry of Telecommunications could also make its influence felt by deciding whether or not to give the go-ahead on competition grounds for Olivetti's decision to sell its remaining stake in Oliman to Mannesmann of Germany.

Olivetti must raise funds from the sale for its takeover bid to succeed. But the ministry must first reverse a decree that forbids the sale of its 51 per cent stake until the end of the year.

It is too early to talk of a split within the government over these issues. But a difference of tone is emerging between Mr D'Alema and the Treasury.

The centre-left premier made little secret last year of his distaste for the way that the state passed management of Telecom Italia to a small group of strategic shareholders. "We had to go and ask if people could please acquire a 0.6 per cent stake," he said. "It is disconcerting that there has not been someone with the courage, the will, to take a jewel like Telecom."

The Treasury is taking a more dispassionate view. "We have made clear to our representatives on the board that any decision that is taken must be in the interests of the entire community of Telecom Italia shareholders," said a senior official.

Ultimately, the government's outlook on the deal could be determined by whether there is significant participation by foreign telecommunications companies in the bid by Olivetti, or any counter-bid by Telecom Italia. Italy's political establishment is still unwilling to allow an overseas group to gain a significant foothold in a sector of such importance.

AVENTIS REPORT WARNS OVER DEAL

Merger 'may force closure of 50 plants'

By David Owen in Paris and David Pilling in London

Aventis, the life sciences company being formed by Hoechst of Germany and Rhône-Poulenc of France, may close or divest more than half its pharmaceuticals production plants if it follows proposals set out in a working document prepared last October.

The confidential document shows more than 50 out of 91 world primary and secondary industrial sites targeted for closure or divestment – an average of more than one a month over three years.

Aventis, with sales of $20bn, will be the world's second-biggest pharmaceuticals group and the world leader in crop protection and animal health.

December's merger announcement marked the first stage of a two-stage process ending in a full-scale link-up between Hoechst and Rhône-Poulenc within three years.

Details from the document first appeared in Les Echos, the French business newspaper controlled by Pearson, owner of the Financial Times. It talks of synergy savings of $1bn with a reduction of around 10,000 employees being identified. When the deal was unveiled, the companies spoke of annual cost savings of about $1.2bn by cutting jobs and overlaps. Of this figure, 60 per cent, or just over $700m, would come from pharmaceuticals.

This $700m figure is understood to assume little or no contribution from France where unemployment is high and any job cuts would be particularly sensitive. The working document targets the divestment of six French industrial sites and talks of "a continued gradual phase-out" of the Romainville R&D site over 10 years.

As it consolidates its two portfolios of drugs in development, Aventis will have to cull several projects. The working document appears to indicate that it is considering withdrawing from bone, rheumatology and possibly asthma therapies.

Hoechst recently launched Arava for rheumatoid arthritis, but sales are not expected to climb much above $300m. The document suggests RP could license out one related product – a new oestrogen being developed to treat menopause.

Hoechst Marion Roussel, the pharmaceutical arm, was forced to withdraw Seldane, an anti-allergy agent, and Rhône-Poulenc's asthma franchise has been battered by competition.

Anti-allergy drugs are expected to provide much of the company's growth. Allegra, HMR's product, is expected to reach sales of more than $1bn, making it the new group's likely top seller. RP's development of Kestine, an anti-histamine, may have to be abandoned.

Neither company has strong bone research projects in development.

That would leave Aventis concentrating on cardiovascular, oncology, anti-infectives, central nervous system, diabetes and vaccines. According to the working document, anti-infectives and some CNS research could be carried out in France; oncology, immunology and the remaining CNS work in the US; and cardiovascular and diabetes in Germany.

Rhône-Poulenc said the document was one of a number of studies done by outside consultants.

The document prepared by Monitor Company, the US consulting group, lists 35 sites as targeted for closure in countries including Australia, India, Mexico, Puerto Rico, South Africa and the UK, with 16 industrial sites earmarked for divestment.

Sovereign issuers in euros cash in on search for yield

By Arkady Ostrovsky

Emerging market governments are cashing in on the growing search for yield by European investors with a spate of debut bond issues in the new currency.

"Euro-denominated paper is favoured over dollar-denominated paper, certainly by central European countries," said Thomas Browne, analyst at J.P. Morgan.

Although the amount of emerging market debt issued in dollars still exceeds that in euros, many emerging markets are keen to establish a benchmark early in the life of the new currency.

This week Croatia will become the latest emerging market country to raise funds in euros. It will offer €250m-€300m of seven-year bonds, priced at about 350 basis points over the relevant German bund. Dresdner Kleinwort Benson and Credit Suisse First Boston will underwrite the offering.

Christopher Tuffy, director at CSFB, says demand for eastern European paper in euros is driven by pension funds, insurance companies and other institutional investors looking for higher yield when bond yields in western Europe are at historic lows. In the past, emerging markets were mainly driven by retail investors.

Strong appetite for euro paper last month enabled Hungary to issue €500m of 10-year bonds a day after the Brazilian crisis. Hungary was also able to price its 10-year issue at a much tighter spread than its existing five-year dollar-denominated paper.

Hungary's euro bond was launched at 87 basis points over the 10-year German bund, or at 45 points over Euribor, the floating rate benchmark, while its dollar paper was trading at 65 points over the benchmark.

The prospects of convergence with the euro-zone makes eastern European markets particularly attractive. "With the launch of the euro institutional investors have lost their currency play and are now betting on convergence prospects in eastern Europe," says Mr Tuffy.

Other emerging market borrowers to tap bonds in euros include Argentina, which has offered three such issues this year totalling €750m.

In addition, Lebanon, one of the most frequent visitors to the international capital markets, last week became the first Middle Eastern country to issue bonds in euros.

Indeed, so strong was demand for euro-denominated paper that Merrill Lynch, the lead manager, advised Lebanon to increase its euro offering from €100m to €300m and reduce the accompanying dollar tranche from $250m to $200m.

In the next 10 days, the Philippines will become the first Asian economy to issue sovereign debt in euros, with an offering of up to €750m. Turkey is also waiting in the wings with an issue of €1bn.

"There is a lot of money in euros waiting for good quality emerging market names," says Anthony Thomas, emerging markets economist at Dresdner Kleinwort Benson.

Siemens chief sets tough new profits targets

By Uta Harnischfeger in Frankfurt

The chairman of Siemens, Germany's largest engineering and electronics group, has set strict profit targets, under which the group's 16 divisions must each lift profits sharply by the end of the 2000 financial year.

At Thursday's annual shareholders meeting, Heinrich von Pierer, who is facing increasing pressure from shareholders seeking higher returns, pledged that all divisions must at least cover their cost of capital. Mr von Pierer threatened to divest or merge divisions that failed to reach that goal.

According to Monday's edition of Focus, the German weekly magazine, Siemens' communications division, which finished its last financial year with a minimal pre-tax profit, would have to earn more than DM500m (€255m, US$284m) within two years.

Herbert Steffen, head of the transport technology division, would have to turn last year's pre-tax loss of DM759m into a profit of between DM100m and DM200m, while Adolf Hüttl, KWU energy division chief, would have to turn a DM65m pre-tax loss into a DM500m profit. Semiconductors, which Siemens plans to list by the beginning of 2000, would have to make a DM500m pre-tax profit by the end of 2000 after a DM1.2bn pre-tax loss last year.

If Mr von Pierer fulfils his pledge, Siemens could earn DM6.7bn in fiscal 1997/1998 after a DM2.7bn profit before extraordinary expenses in 1997/1998, the magazine reported.

Mr von Pierer is under severe pressure to show that a 150-year-old industrial giant can be competitive in a world marked by streamlining and specialisation.

In spite of the radical restructuring Mr von Pierer announced in November, including the sale of all components businesses, Siemens remains a highly diversified group with businesses from mobile phones to nuclear power plants and rail activities.

Mr von Pierer has promised to increase 1998/1999 sales by more than 12 per cent, and profits by an even higher percentage. In addition, he committed himself to make 80 per cent of Siemens' businesses number one or two in their fields, compared with the 60 per cent that are currently number one or two.

EMERGING MARKETS BROKERS HOPE TALKS WILL STIR PAKISTAN INVESTORS

Flat market looks to summit

By Peter Montagnon and Farhan Bokhari in Karachi

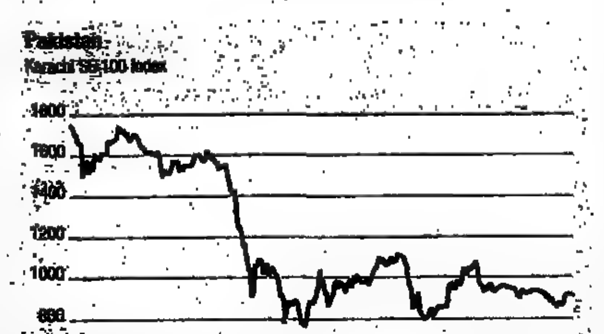
Karachi stockbrokers have been desperately hoping that this weekend's Indo-Pakistan summit would provide a boost to a market that stubbornly refuses to react to good news.

So far this year the government has signed a new agreement with the International Monetary Fund that has seen the resumption of aid flows halted following last May's nuclear tests. It has also signed a $3.3bn rescheduling deal with government creditors in the Paris Club. Yet on Friday the Karachi Stock Exchange 100 index closed at 913.78, just over 4 per cent below its level at the start of January.

"We are the cheapest market in the world," complains Muhammad Yasin Lakhani, KSE chairman. Pakistani shares trade on a price/earnings ratio of just four times historic earnings compared with 18 times in 1994, he says. Though the market is still well above its trough of 765.74 last July, when the country's debt was downgraded in the wake of the nuclear tests, too many uncertainties prevent investors piling in in force.

Foreign portfolio investment outstandings are down to around only $300m from their peak of $2bn.

Not only are they unlikely to recover while anxiety lingers over the risk of nuclear confrontation, but investors are also worried about the continuing battle between the government and Hubco,



the leading independent power producer, which may undermine IMF and World Bank rescue efforts.

There is also considerable concern over a request by the Paris Club that Pakistan should reschedule outstanding international bond issues. That would affect the country's future access to the international capital markets.

Most important of all, there is widespread scepticism about Pakistan's ability to meet the conditions of its new IMF programme.

Against that background, it is not surprising that brokers have been hoping for a boost from the summit, but whether the meeting's seemingly rather modest result will provide anything more than a temporary boost at best is moot.

Ishaq Dar, Pakistan's finance minister, says the country is on track with its IMF programme.

"All commitments and understandings with the IMF are being followed rigorously," he says.

Though tax revenues have been running behind schedule, this is because refunds held over from the last financial year were paid in the first half of the current year.

The government will meet its Rs328bn ($7.7bn) target for the full year to end June, he says, thanks to an expected pick-up in economic activity and an increase in tariff revenues now the government has reduced the cost of financing imports.

For the stock market, the government's efforts to reduce its deficit have added significance.

Nasir Bukhari of brokers Khadim Ali Shah Bukhari says the high rate of 18 per cent available on government debt is a disincentive for local investors to buy shares. Lower interest rates are essential for a market recovery, he says.

Signals from an IMF mission in Pakistan last week suggested that the IMF was happy for the time being and was likely to release a fresh $50m tranche of its loan in early March, but bankers warn that some critical tests lie ahead. By the end of March Pakistan must cut its maximum import tariff from 45 per cent to 35 per cent, a move that is bound to prove unpopular with industry. It must also increase electricity charges by 11.5 per cent.

By the end of June it must move to a market exchange rate, abandoning both the official rate at which wheat and petroleum are imported and the composite rate – a blend of the official rate and the interbank market rate – at which trade is priced.

However, the move to a market rate could bring a large loss to the central bank, which has guaranteed some $5bn in non-resident deposits at the official exchange rate of Rs46 to the dollar.

That would upset next year's budget targets.

Only when it is clear that Pakistan is willing to tackle these issues will real confidence return, brokers say. Then the market could surge as buyers snap up real bargains.

The snag is that things could still easily go the other way. By mid-year, the market will either be booming or the country will be mired in another deep crisis as it falls out of compliance with the IMF.

For the time being, investors seem to believe that the safest thing is to sit on their hands.

Kirin shrugs off fall in beer sales

By Alexandra Harney in Tokyo

Kirin Brewery shrugged off the slump in consumer sentiment and a decline in beer sales last year, reporting a fall of just 1.7 per cent in profits before taxes and exceptional items to Y63.61bn ($528m). Net profits jumped 6.6 per cent to Y27.06bn on turnover down 1.8 per cent to Y1,477bn.

The results reflected Kirin's strong position in the low-malt beer market despite tough competition from Asahi Breweries, which shipped more cases of beer than Kirin for the first time.

The group, which also markets non-alcoholic drinks, whisky and wine products, attributed most of the decline in pre-tax profits to the purchase of its own shares and other financial support. Kirin has implemented a share buy-back scheme to improve shareholder value, which according to Goldman Sachs includes about 25m shares, worth Y35bn, by March 1999.

Kirin expects pre-tax profits before exceptional items to climb to Y82bn this year on turnover of Y1,520bn. Net profits should be Y36bn.

● Sapporo Breweries, the third largest beer maker, recorded net losses of Y11.19bn for 1998 on sales of Y605.7bn. It also fell into a loss on the pre-tax level, reporting a deficit of Y422m.

MARKETS WEEK

February 22 - February 28

NEW YORK

By Andrew Edgecliffe-Johnson

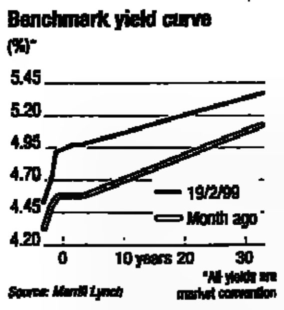
Alan Greenspan, Federal Reserve chairman, will deliver his semi-annual Humphrey-Hawkins congressional testimony on Tuesday and Wednesday. Analysts expect him to present a balanced outlook for the US economy, showing the Fed's caution about strong domestic growth and tight labour markets while remaining wary about the fragile international picture. Expectations of a rise in short-term interest rates have receded, thanks to benign domestic inflation figures and slower stock market growth.

Attention will also focus on revised fourth-quarter GDP figures, to be released on Friday. The Commerce Department is expected to revise the number from 5.6 per cent to 6 per cent, largely because net exports were about $2bn stronger than expected.

On Monday, the January budget surplus is expected to come in at an impressive $70bn, nearly three times the level of the same time last year.

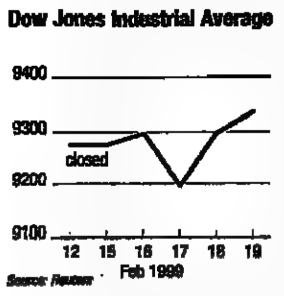
Consumer confidence figures to be released on Tuesday should show a two point climb in the index to 129.0 for February – taking it back to levels last seen six months ago.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Dow Jones Industrial Average



Source: Reuters

LONDON

By Philip Coggan

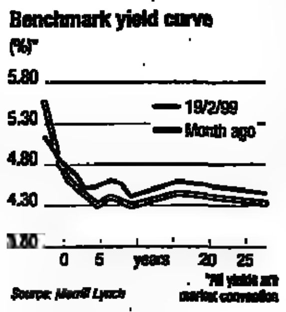
The UK stock market will be looking for a lead to help the FTSE 100 index climb out of the 5,800-6,150 range in which it has traded so far this year. Falling interest rates and takeover activity have spurred it towards the top of the range but economic and corporate earnings concerns – particularly in manufacturing – dragged it down again.

This week will see further evidence of the UK's economic situation, with the second estimate of fourth-quarter gross domestic product growth likely to result in a downwards revision from the initial 0.2 per cent figure. The consensus, according to Standard & Poor's MMS, is for growth of just 0.1 per cent.

The Confederation of British Industry releases its monthly trends survey on Thursday, with attention likely to focus on whether the recent modest upturn in sentiment can be maintained.

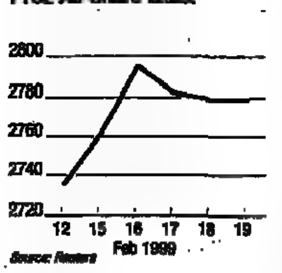
Alliance & Leicester, HSBC and NatWest will seek to continue the trend of buoyant banking results. Other companies reporting include ABP, British Aerospace, BG, Cadbury Schweppes, Prudential, Rio Tinto and Unilever.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

FTSE All-Share Index



Source: Reuters

FRANKFURT

By Uta Harnischfeger

The German stock market may lack motivation this week, as it did in the past week when it fared particularly badly compared with other European and international bourses. "The market will remain shaky," said a trader at Bayerische HypoVereinsbank in Munich.

On Friday, the DAX index of 30 German blue chips closed at 4,823.26, down 1 per cent on the day and 1.5 per cent lower than its close a week earlier.

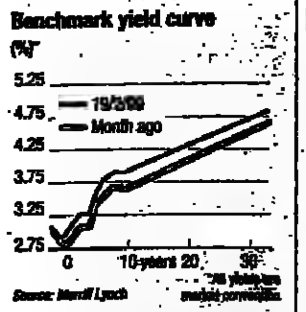
Traders say that unless the nature of the orders changes, more sell-offs should be expected. Unlike orders from large institutional players, recent order sizes have been rather small and investors have lacked clear strategies.

In addition, few impulses for the stock market are expected from Saturday's meeting of the finance ministers and central bank heads of the G7 in Bonn.

Nevertheless, banking stocks may be awaiting some fresh action.

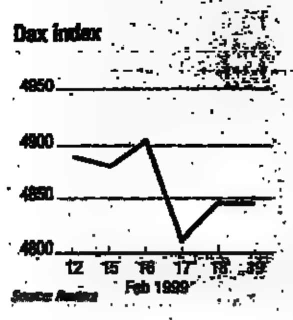
On Tuesday Bayerische HypoVereinsbank will reveal some core earnings data for 1998, followed by Dresdner Bank on Thursday. Pharmaceuticals group Hoechst will follow suit on Friday.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Dax index



Source: Reuters

TOKYO

By Alexandra Nusbaum

The market is set to enter a nervous week as investors try to make sense of the government's recent U-turns in monetary policy. In the aftermath of the G7 meeting, traders will be watching to see if the government maintains its "weak yen" policy.

The yen is expected to sink below Y120 against the dollar, its low last week. But Japan's ministry of finance is not likely to make any comments that would support a depreciation of the yen below Y125 against the dollar, according to economists.

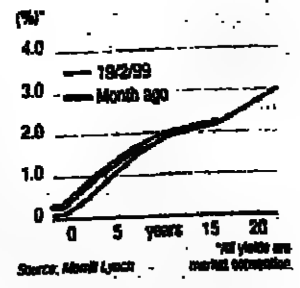
"The yen will be defined by what levels the Americans will accept," said Ken Okamura, strategist at Dresdner Kleinwort Benson.

The bond market will react to any further signs of monetary easing from the Bank of Japan, which last week lowered the overnight market rate from 0.25 per cent to 0.15 per cent.

"We are waiting to see if the Bank of Japan will pursue a policy of zero call rates," said Mr Okamura.

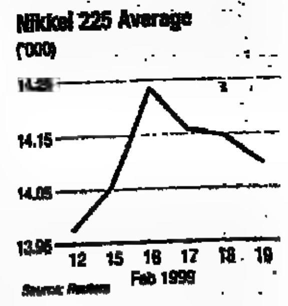
Preliminary data on consumer spending, industrial production and housing starts will be released this week but are not expected to have a significant impact on the market.

Benchmark yield curve (%)*



Source: Merrill Lynch *All yields are market convention

Nikkei 225 Average ('000)



Source: Reuters

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	15.0	100	95	AIM VCT	100		–	–	–	–
–	F.P.	–	96½	88	Abbey Natl Dublin	88		–	–	–	–
–	F.P.	–	102½	101½	Acorn Income Fd	101½		–	–	–	–
§	F.P.	36.0	123	116½	BFS O'seas Inc	120		Hn12.65	–	10.5	–
§	F.P.	3.82	103	96	Do Cap	98		–	–	–	–
–	F.P.	18.0	100	90	Close Bros Dev VCT	100		–	–	–	–
–	F.P.	81.5	103¾	100½	Enhanced Zero Tst	102½		–	–	–	–
*	F.P.	38.2	7¼	7	Gander Properties	7¼			–	–	–
–	F.P.	14.5	29½	29½	†Golden Prospect	29½		–	–	–	–
§	F.P.	48.5	100¼	94¼	Jupiter Enhanced	97½	–½	–	–	–	–
§	F.P.	47.3	110	103¾	Do Zero Div Pf	109¼	+¼	–	–	–	–
–	F.P.	5.57	109¼	107½	†NSA Guardian	109½		W–	–	–	11.2

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
49	Nil	25/2	¼pm	¼pm	Ambient Media	¼pm	
78	Nil	10/3	25pm	20pm	Peptide Therap	21pm	

pm premium.

FTSE GOLD MINES INDEX

	Feb 19	% chg since 31/12/98	Mkt Cap $bn	% of Gold Mines	Gross div yld %	Total return	52 week High	52 week Low
Gold Mines Index (29)	907.55	–9.8	30.05	100.00	2.82	913.98	1361.87	791.68
■ Regional Indices								
Africa (9)	904.38	–3.8	7.89	26.27	4.35	978.32	1488.04	785.63
Australasia (9)	1141.25	–2.2	4.47	14.88	2.89	1153.26	1600.33	[illegible]
Americas (11)	854.50	–3.1	17.68	58.85	0.85	868.88	1317.41	847.69

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STOCK INDICES

	Feb 19	Feb 18	Feb 17	Feb 16	Feb 15	1999 High	1999 Low	Since comp. High	Since comp. Low
FTSE 100	6031.2	6074.9	6078.4	6108.6	6023.2	6179.0	4648.7	6179.0	986.9
FTSE 250	5173.1	5133.9	5174.8	5200.9	5177.2	5866.8	4261.2	5866.8	1379.4
FTSE 250 ex IT	5200.8	5176.6	5198.7	5225.8	5208.4	6030.0	4295.8	6030.0	1378.3
FTSE 350	2859.5	2876.4	2878.5	2892.9	2856.6	2987.8	2233.5	3546.4	664.5
FTSE SmallCap	2249.14	2246.36	2250.45	2248.11	2240.59	2868.09	1834.49	2868.09	1363.79
FTSE SmallCap ex IT	2221.30	2217.45	2221.06	2217.26	2213.32	5554.10	1815.83	5554.10	1363.79
FTSE All-Share	2764.70	2779.17	2782.30	2795.39	2761.57	2885.17	2168.07	2885.17	61.92

	Feb 19	Feb 18	Feb 17	Feb 16	Feb 15	1999 High	1999 Low	Since comp. High	Since comp. Low
FTSE Fledgling	1227.89	1226.65	1228.66	1228.92	1228.03	1517.11	1049.17	1517.11	31.14
FTSE Eurotop 100	2768.05	2748.40	2747.84	2775.72	2754.60	3066.91	2049.91	3066.91	2044.47
FTSE Eurotop 300	1204.50	1198.55	1197.51	1209.41	1201.04	1327.88	853.55	1327.88	874.06
FT 30	3670.3	3696.8	3700.6	3697.7	3649.7	3994.0	2806.8	3994.0	49.4
FT Govt Securities	114.84	114.69	114.62	114.67	114.19	117.17	93.31	141.84	49.18
FT Fixed Interest	158.31	157.78	157.44	157.45	156.94	158.89	115.32	158.89	50.53
FTSE Gold Mines	907.55	904.44	906.06	923.69	958.18	1361.87	701.58	2074.81	701.58

COMPANIES DIARY

HSBC to outline its east Asian exposure

HSBC is today likely to reveal that bad debts in the Asia-Pacific region have risen further during the second half, while loan loss provisions will bear heavily on reported profits. But North American operations have remained stable and Midland Bank has continued to gain ground in the UK. Forecasts for pre-tax profit range from $6.4bn to $7.4bn (€4.9bn to €6bn).

● Georg Fischer, the Swiss engineering group, is expected to report full-year net profit of SFr133m-SFr140m, compared with SFr114m ($80m) (€71m) in 1997. Sales growth is seen as only slight – mainly because of disposals in the plant engineering sector – but growth in net and operating profit will be strong on the back of good results in automotive products and manufacturing technology. *AFX-News, Zurich*

John Bond, chairman of HSBC: North American operations have remained stable

TUESDAY

● Full-year results from Unilever, the Anglo-Dutch consumer group, are expected to show pre-tax profit of £3.05bn ($4.97bn) (€4.43bn) against £2.9bn before the customary restructuring charge and exceptional profits on disposals that include £260m on the sale of the Plant Breeding Institute. Underlying growth before currency movements and exceptionals is likely to be in double digits.

● National Westminster Bank has been lying low, avoiding many of the pitfalls of the financial markets that have beset rival Barclays. The big gains in cost efficiency from its programme to overhaul UK retail banking operations are yet to come, but the bank is forecast to report pre-tax profits of between £1.8bn and £2.1bn, with those at the bottom of the range expecting a higher bad debt charge.

● Management issues will be the focus of attention when Associated British Ports, the UK's largest ports group, reports its annual results. Analysts, who will also be keen to judge the performance of US acquisition American Port Services, are expecting pre-tax profits of £107m-£111m.

● Analysts are hoping to hear whether BG – often mentioned as a possible purchaser of some of the UK's struggling oil exploration and production companies – has any plans to use its balance-sheet strength to fund acquisitions, or whether it will continue with its share repurchase programme. The oil and gas distribution company is forecast to announce net income of between £550m and £660m and a 24 per cent increase in fourth-quarter operating profit over last year.

● Switzerland's Ciba Specialty Chemicals, which terminated a proposed merger with rival Clariant last year, is expected to post lower results due to increased competition in the global specialty chemicals industry and adverse currency factors. Analysts forecast full-year net profit before restructuring costs of between SFr393m-SFr459m, compared with SFr571m in 1997. *AFX-News, Zurich*

WEDNESDAY

● Cadbury Schweppes, the confectionery and soft drinks group, announces its full-year results with pre-tax profit likely to be just over £600m, compared with £575m before exceptionals last year.

● With Prudential, there will be much interest in the performance of Egg, its direct banking arm. Analysts believe it could already have collected deposits of £2.5bn in just five months – the equivalent of a small building society. The City is looking for continuing operating profits of £830m to £880m (£834m).

THURSDAY

● Rio Tinto looks set to confirm its reputation as one of the few safe bets of the mining sector when it reports preliminary annual figures. The consensus estimate published by IBES shows earnings per share declining from 53.2p to 49.1p and pre-tax profits dipping from £1.27bn to £1.15bn.

● British Aerospace will be quizzed about far more than the figures. Analysts will want to know about progress in closing the deal to acquire Marconi Electronics Systems from GEC, and whether regulators might intervene. BAe's views on the future of European aerospace and defence restructuring will also be sought, as well as news on the future of Airbus Industrie. Then there is the matter of how the low oil price affects BAe's Al Yamamah contract with Saudi Arabia, which accounts for £2bn in revenues. BT Alex Brown forecasts a profit of £681m (£596m).

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
PPM America Class A1(a)‡★	448	Jan 2017	(a1)§	100.00	-	-	CSFB
Kommuninvest‡	75	Feb 2009	(b)	100.25	-	-	Merrill Lynch
Deutsche Bank Finance‡	500	Mar 2006	(j)	99.756R	-	-	Deutsche Bank
SGZ Bank‡	500	Feb 2004	(k)	99.835R	-	-	Deutsche Bk/Lehman
State Bank of NSW	400	Mar 2001	(l)	99.770R	-	-	Deutsche Bank
Nomura Global Funding‡	300	Feb 2002	5.40(q)	99.930	-	-	Nomura Securities
SanAmerica Global Funding(p)	150	Feb 2009	5.75	99.1769R	5.940	+67(4¾Nov08)	Merrill Lynch
DSL Bank(r)	150	Feb 2005	5.75	100.916R	3.51	+54(4¾Feb04)	CSFB
Abbey National Treasury	300	Mar 2002	5.50	99.814R	5.567	+58(4½Jan01)	CSFB
Woolwich‡	300	Mar 2002	(z)	99.975R	-	-	Tokyo-Mitsubishi
AFC Class A‡	275	Feb 2029	(A)	100.00R	-	-	Merrill Lynch
AFC Class B‡	250	Feb 2029	(B)	100.00R	-	-	Merrill Lynch
Spintab‡	300	Mar 2002	(C)	99.992R	-	-	JP Morgan
Argentina	1bn	Feb 2019	12.125	99.613R	12.17	+678(5¼ 29)	JP Morgan
Ford Motor Credit Corp	2bn	Feb 2004	5.75‡	99.974R	5.756	+83(4¾Feb04)	Bear Stearns/MSDW
British Sky Broadcasting	600	Feb 2009	6.875	99.48	6.948	+108(4¾ 08)	Merrill Lynch
Austria	250(G)	Oct 2009	5.25	99.70R	4.81	+49(4¼Nov08)	Tokyo-Mitsubishi
Countrywide Home Equity‡	185	Feb 2006	(H)	100.00R	-	-	Salomon Smith Barney
Lebanese Republic Class A	200	Mar 2004	8.50	99.504R	8.626	+355(4¾ 04)	Merrill Lynch
First USA CCMT Class A‡(S)	500	Oct 2008	(S1)	100.00	-	-	CSFB
JP Morgan	1bn	Feb 2004	5.75‡	99.529R	5.86	+93(4¾Feb04)	JP Morgan
Dresdner Finance‡	750(T)	Feb 2004	(T1)	99.86R	-	-	Dresdner Kleinwort
STERLING							
Hyder	60(X)	Apr 2020	7.00	102.307		+210(8% 21)	Dresdner KW/JP Morgan
EIB	175(M)	Dec 2028	zero	24.005	-	-	Barclays
RMS Class A(v)	150	Jan 2037	(w1)	99.91R	-	-	MSDW
LCR Finance	1bn	Dec 2010	4.75(g)	99.748R	4.809	+37½(5¾ 09)	HSBC Markets/WDR
Railtrack(F)	400	Mar 2009	3.50	100.00	-	-	WDR
Holmes Funding Class A1‡	210	Dec 2025	(L,R)	100.00	-	-	JP Morgan
Holmes Funding Class A2‡	210	Dec 2025	(M,R)	100.00	-	-	JP Morgan
Holmes Funding Class B‡	52.5	Dec 2025	(N,R)	100.00	-	-	JP Morgan
Holmes Funding Class C‡	47.5	Dec 2025	(O,R)	100.00	-	-	JP Morgan
SWISS FRANCS							
Abbey National Treasury	200(x)	Jan 2004	2.00	100.55	-	-	CSFB
Migros Bank	100(y)	Feb 2007	3.125	101.50	-	-	CSFB
Swedish Export Credit Corp	250	Mar 2004	2.00	100.75	-	-	WDR
NEW ZEALAND DOLLARS							
National Australia Bank	100	Mar 2004	6.00	100.57	-	60(I)	RBC DS
AUSTRALIAN DOLLARS							
National Australia Bank	100	Mar 2004	5.50	101.27	-	-	TD Securities

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
SWEDISH KRONER							
Helaba Finance	400	Mar 2004	3.875	101.64085	-	-	Deutsche Bank
EUROS(e)							
Depfa Hypothekenbank	468(c)	Nov 2000	3.00	99.83R	-	-	Deutsche Bank
Banca Popolare Di Brescia‡	150	Feb 2002	(d)	99.949R	-	-	MSDW
Caja Madrid	80	Feb 2009	3.25(f)	100.00	-	-	Caja Madrid
BCP Finance Bank‡	100	Feb 2002	(g)	99.952R	-	-	Warburg Dillon Read
JEM	500	Mar 2004	3.625	99.587R	3.717	+33(5½Apr04)	Paribas
Cedest‡	350	Mar 2001	(i)	99.942R	-	-	BNP
MRUCFC	350	Feb 2006	4.125	99.607R	4.190	+48(6%Jan06)	JP Morgan
IFC	60	Mar 2019	(n)	99.750R	-	-	Lehman Bros
CLIO	230	Feb 2001	(D,u)	100.00R	-	-	Paribas
World Bank	100	Mar 2024	(E)	98.50R	-	-	Paribas
Austria	1.1bn	Jul 2009	4.00(u)	99.935R	-	+10(j)	Deutsche/Nomura/WDR
Holmes Funding Class A2‡	700	Dec 2025	(J,R)	100.00	-	-	JP Morgan
Abbey National Treasury	500	Jul 2004	3.62(s)	99.747R	3.681	+25(3½Jul04)	Deutsche/Nomura
Lebanese Republic Class B	300	Mar 2004	7.25	99.71R	7.321	+393(5½ 04)	Merrill Lynch
Commerzbank	75	Mar 2009	(K)	99.90R	-	-	Commerzbank
Vattenfall Treasury	250	Oct 2011	4.5	99.288	4.578	+67(3¾Jan09)	Salomon Brothers
CIR International	400	Mar 2009	5.25	98.639	5.429	+153(3¾ 08)	Chase Manhattan

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Also issued: Class A2, $22m, Class A3, $35m, Class B, $73m, Class C, $54m. a1) 6-mth Libor + 85bp. Callable at par on every interest date. b) 3-mth Libor flat. c) Fungible with €502m. Plus 93 days accrued interest. d) 3-mth Euribor + 20bp. e) Spread related to German government bonds unless stated. f) Option available to switch to bond issued or guaranteed by Caja Madrid, with coupon of 6.7% or cash in bond for 100% of face value plus premium based on 10yr interest rate swap, at maturity. g) 3-mth Euribor +15bp. €300m bond launched 8/2/99 increased to 300m. h) £140m bond launched 4/12/98 increased to £200m. i) Over interpolated yield. j) 3-mth Libor plus 10bp. k) 3-mth Libor plus 12½bp. l) Long 1st coupon. n) 3-mth Libor plus 25bp. p) $850m bond launched 2/2/99 increased to $1bn. q) Quarterly. r) Fungible with 1.15bn. Plus 19 days accrued. s) Short 1st coupon. t) Eonia plus 30bp. u) 13% in yr 1, 8% in yr 2, 5% in yr 3, 4% in yrs 4-7, 8% minus 12-month Euribor thereafter. v) £325m bond launched 11/2/99 increased to £500m. w) Also available: Class B, private placement. Class M £12m. w1) 30mth Libor plus 28bp. x) Fungible with SFr200m. Plus 69 days accrued interest. y) Fungible with SFr150m. Plus 45 days accrued interest. z) 3-mth Libor plus 8¼bp. A) 1-mth Libor plus 48bp. B) 1-mth Libor plus 38bp. C) 3-mth Libor plus 8¼bp. D) 3-mth Euribor plus 50bp. E) 12½% in yr 1, 5% in yrs 2&3, 4% in yrs 4&5, 9% minus 12-mth Euribor in yrs 6020, 4% in yrs 21 &22, 5% in yrs 23&24, 12½% in yr 25. F) Conv price £18.40. Conv premium: 25%. Greenshoe £50m. Callable at par after 5 yrs. G) Fungible with $750m. Plus 58 days accrued interest. H) 1-mth Libor plus 32bp. J) 3-mth Euribor plus 20bp until 15/3/06 then 3-mth Euribor +40bp. K) Annual floating coupon linked to the Rex 10-yr yield sub-index. L) 3-mth Libor+10bp until 15/3/06 then 3-mth Libor plus 20bp. M) 3-mth Libor plus 27bp until 16/3/05, then 3-mth Libor plus 54bp. N) 3-mth Libor plus 55bp until 18/3/06 then 3-mth Libor plus 110bp. O) 3-mth Libor plus 160bp until 18/3/06 then 3-mth Libor plus 320bp. R) Callable at par from 15/3/06. S) Also issued: Class B, $45.18m. 1-mth Libor plus 44bp. Class C, $57.23. 1-mth Libor plus 165bp. T) £1bn launched 2/2/99 increased to £1.75bn. T1) 3-mth Euribor plus 10bp. Note: Yields are calculated on ISMA basis.

هكذا من الأصل

WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Abbey National Treasury 6.8% Gtd Hts 2002 L340000.0
Avco Tst Gtd FRN 2000 £181.57
Bespak 5.6p
Chase Manhattan Snr FRN 2002 $133.97
Coral Products 0.875p
Hampson Inds 0.7p
IAWS IR1.852p
Merchants Tst 2.98p
National Grid 5½% Bd 2001 $55.0
National Power 8% Nts 2007 A$40.0
Royal Bank of Scotland FRN 2005 £90.94
Schroder AsiaPacific Fd 0.5p
Scottish Power 8¾% Bd 2017 $83.75
Sea Containers A $0.25
Do B $0.2273
Tesco 8¾% Bd 2003 £87.50
Tokyo-Mitsubishi Tranche A FRN 2001 $13801.67
Do Tranche B 1999 $13776.39
Trustco Fin 11½% Svrl Db 2016 £5.75
UK Pass-Through Secs 5½% Sec Nts 2001 Ecu55.0
United Kingdom 9¼% Bd 2001 Ecu91.25

■ TOMORROW

Aon $0.28
Chugoku Elec Power 8% Nts 2000 $400.0
Egypt Tst $0.26
Ensor 0.25p
Nationwide Bldg Scty 4¼% IL 2024 £3.2572
Seiyu Europa 5.65% Gtd Bd 2000 Y2825000.0
Treasury 2½% IL 2011 £2.73

■ WEDNESDAY FEBRUARY 24

Abbey National Treasury 4⅞% Gtd Nts 2003 Ecu48.75
Arcadia 8% Un Ln 1996/2001 £4.0
Debenham Tewson & Chinnocks 1.5p
Eskmuir Props 7¾% 1st Mtg Db 2020 £3.9375
Do 9¼% 1st Mtg Db 2020 £4.625
Heal's 3.75p
LPA 1.3p
London Int 0.9p
Municipality Fin 11.55% Gtd Nts 1999 FM115500.0
Northam Platinum R0.10
Royal Bank of Canada C$0.46
Vogels Metal R0.185
Whittard of Chelsea 1.15p

■ THURSDAY FEBRUARY 25

Abbey National Treasury 5.45% Gtd Nts 2003 L272500.0
Do 6¾% Gtd Nts 2004 C$ 67.50
Alcoa $0.4025
Allied Domecq 10⅝% Bd 1999 £531.25
Apollo Metals 3.4p
Bank of Montreal C$0.47
Burtonwood Brewery 2.12p
CS First Boston Fin Gtd FRN Aug 2003 $28.59
Daiei 6¾% Bd 2000 Y637500.0
Daikin Inds 6.35% Bd 1999 Y635000.0
Eaton $0.44
John David Sports 2p
Merrill Lynch $0.24
M & G High Inc Inv Tst 0.98p
Do Inc & Grwth Units 0.98p
Do Package Units 0.98p
Nippon Sanso 6.4% Nts 2000 Y640000.0
Tilon 17.6p
Treasury 8¾% 2017 £4.375
Whitbread 7¼% Un Ln 1995/99 £2.2048

■ FRIDAY FEBRUARY 26

Bankers Inv Tst 1p
Bank of Nova Scotia Fltg Rate Sb Cap Db 2085 $293.85
CLM Insce Fd 1.2p
Canadian Imperial Bank of Commerce Fltg Rate Sb Cap Db 2085 $297.08
Cater Allen Equity Grwth Fd Ptg Pf 7p
Cater Allen Gilt & Fixed Inc Fd Ptg Pf (Gilt Inc) 9p
Do (High Yld Gilt) 20p
Chase Manhattan Sb FRN 2000 $129.86
City of London Inv Tst 20% Non-Cm Pf 7p
Do 6% Cm 1st Pf £2.10
Do 6% Non-Cm 2nd Pf 2.1p
City of Oxford Inv Tst 0.65p
Commonwealth Bank of Australia Dtd FRN Feb 1999 $285.94
Do Dtd FRN Feb 2000 $285.94
Do Und FRN (Feb 1989) $232.16
Danae Inv Tst 3.625p
Deltron Elec 2.38p
Deutsche Morgan Grenfell Und Prim Cap FRN $300.17
Dumyat Inv Tst Cv Mnthly Div 0.49p
Finsbury Inc & Grwth Inv Tst 2.5p
Fleming Geared Grwth Inv Tst 1p
Do Units 9p
Fountain Forestry 1.9p
Galen 0.88p
Game 1p
Gartmore SNT 0.78p
Geared Inc Inv Tst 1.625p
Glasgow Inc Tst 1.1p
Goldshield 0.46p
Gooch & Housego 1.2p
Goodhead 0.3p
Greenalls 10.51p
Halifax Clrd FRN 2003 £378.98
Hill Samuel UK Emerging Co's Inv Tst 0.34p
Hongkong & Shanghai Banking Prim Cap Und FRN (Ser 1) $154.93
Int Greetings 3p
Invesco Cv Tst 1.15p
Legal & General Recovery Inv Tst 1.85p
Leveraged Inc Fd 2.5p
Lloyds Bank Prim Cap Und FRN (Ser 2) $132.92
Do Prim Cap Und FRN (Ser 3) $292.59
Mansfield Brewery 6⅞% Db 2028 £3.4375
Mercury European Privatisation Tst FRN 2004 £1719.17
Midland Bank Sb FRN 2001 £87.73
Nat West Bank Prim Cap FRN Ser C $131.39
Do Und Var Rate Nts £191.66
Nord Anglia Education 3p
Olim Cv Tst 3p
Do Units 9p
Orbis 0.375p
Royal Bank of Canada Fltg Rate Db 2005 $39.38
State Bank of New South Wales 12¼% Nts 2001 A$122.50
Temple Bar Inv Tst 6% Cv Un Ln 2002 £3.0
Tokyo-Mitsubishi Sb FRN 2000 $13444.44
Tomkinsons 8p
Topps Tiles 1.44p
Total Systems 0.8p
Treasury 10% 2001 £5.0
Vega 2.13p
Wells Fargo Sb FRN 2000 $40.83

■ SATURDAY FEBRUARY 27

Gartmore British Inc & Grwth 0.35p
Do Inc 0.35p
Do Units 0.7p
Great Portland Estates 5¼% Cv Bd 2008 £26.25
Invesco English & Int Tst 6¾% Db 2023 £3.375
Lonmin Fin 8% Gtd Cv Bd 2006 £40.0
Treasury 9¾% 2002 £4.875

■ SUNDAY FEBRUARY 28

Derby Tst 9.797p
Ecclesiastical Insce 13% Db 2018 £6.50
Electricite de France 12½% Gtd Ln 2008 £312.50
Jermyn Inv Props 7¼% Cv Un Ln 2008 £3.625
London & St Lawrence Inv 5% Cm Pf 1.75p
Prowting 14½% Cm Pf 7.25p
Witan Inv 6¼% Exch Bd 2008 £30.72916

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Deltron Elec, Suffolk House, Fordham Road, Newmarket, Suffolk, 11.00
PWS, 52, Minories, E.C., 12.00

BOARD MEETINGS:
Finals:
BGR
Community Hospitals
Guardian IT
HSBC
Hibernian
National Power
Ultra Electronics
Zotefoams

■ TOMORROW

COMPANY MEETINGS:
Brooke Industrial, Aston Hall Hotel, Worksop Road, Aston, Sheffield, 10.30
Titon, International House, Peartree Road, Stanway, Colchester, 10.00

BOARD MEETINGS:
Finals:
Access Plus
Admiral
Assoc British Ports
Capital & Regional
Dmatek
Herald Inv Tst
Inv Tst of Guernsey
Irish Permanent
Lorien
Nat West Bank
Oxford Asymmetry
Porvair
Shires Smaller Co's
Stadium
Vymura
Interims:
Beazer
City Technology
ICM Computer
NXT

■ WEDNESDAY FEBRUARY 24

BOARD MEETINGS:
Finals:
AIM
Ashanti Goldfields
Avis Europe
Cadbury Schweppes
Centrica
Conister Tst
Diagonal
Domnick Hunter
Easynet
Inveresk
Microgen
Prudential
Quantica
Select Appointments
Standard Chartered
Interim:
Logica

■ THURSDAY FEBRUARY 25

COMPANY MEETINGS:
Compass, Law Society, 113, Chancery Lane, W.C., 3.00
Fairfield Enterprises, Farmers & Fletchers Hall, 3, Cloth Fair, E.C., 11.30

BOARD MEETINGS:
Finals:
British Aerospace
Card Clear
Clarke (T)
First Active
GRE
Green Property
KBC Advanced Tech
Lex Service
London Bridge Software
Provident Financial
Quadrant Healthcare
Smith & Nephew
United Assurance
Interims:
Galliford
Isotron
Linx Printing Tech
Mucklow (A & J)
Quayle Munro
Ricardo
Sinclair (Wm)

■ FRIDAY FEBRUARY 26

COMPANY MEETINGS:
Celltech, Merchant Taylors Hall, 30, Threadneedle Street, E.C., 11.30
Eskmuir Properties, Langham Hilton, Portland Place, W., 12.00

BOARD MEETINGS:
Finals:
Alliance & Leicester
Itnet
Interim:
Go-Ahead

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

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FT New Media Conference
In the aftermath of the launch of digital television in the UK, the Financial Times New Media conference will examine the state of play in the digital market. Distinguished Speakers include: Mr Ian West, Sky Entertainment; Mr Tony Illsley, Telewest Communications plc; Mr Adam Singer, Flextech plc; Mr David Docherty, BBC and Mr Stephen Grabiner, Ondigital.
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MARCH 5
8th Coal UK/MCIS Seminar "Learning to Play by the New Rules"
A one day seminar focusing on UK coal and electricity markets to 2004.
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Contact: Tess Pearson,
Tel: +44(0)1244 393124
Fax: +44(0)1244 370011
Hotel Inter-Continental Berlin, Germany

MARCH 11
FT UK Stakeholder Pensions Conference
Speakers include: The Rt Hon Frank Field, MP; Mr Chris Evans, Department of Social Security; Mrs Caroline Instance, Occupational Pensions and Regulatory Authority; Mr Andrew Young, Government Actuaries Department; Mr Richard Stroud, The Pensions Trust; Mr Nick Page, Human Resources Directorate, CBI and Mr Robert Nuttall, BBC.
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MARCH 16 - 19
The Ninth International European Business Information Conference - EBIC
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Contact Kim Mollings +44 171 251 5522 (attendance limited to 250)
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CBI, London

MARCH 18 & 19
FT European Pensions
Distinguished speakers include: Professor Mario Monti, Member of the European Commission; Mr Kees van Rees, Managing Director Shell Pensions Fund, Chairman, European Federation of Retirement Provision; Mr Martin Jack, Director of IBM Retirement Funds, EMEA, IBM UK Ltd; Mr Bruce Garner, Head of Pensions, BP Amoco p.l.c. and Ms Ruth Goldman, Head of Pensions, Linklaters & Alliance.
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MARCH 23
ERP and/or Best-of-Breed Supply Chain Systems
Enterprise Resource Planning (ERP) systems form the backbone of customer responsive supply chains but, in some areas, such as forecasting and warehouse management, they may need supplementing by 'best-of-breed' computer packages. This conference considers straight ERP, ERP + best-of-breed systems and integrated best-of-breed solutions.
Brochures from organisers- NMRC
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MARCH 30 & 31
Central & Eastern European Power Industry Forum
High-level forum for ministry officials, utilities, advisors, investors analyzes gas and electricity sector co-operation, project financing, privatization, investment.
"Energy Regulation and Energy Trade" Pre-Conference Seminar March 29.
Venue: Sheraton Hotel
Contact: PennWell Publishing UK C&E
Tel: 44 1708 342222
Fax: 44 1708 379344
email: pennwell@compuserve.com
Warsaw, POLAND

APRIL 12 - 14
IATA's Airline Financial Management 99
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APRIL 22
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APRIL 22 & 23
FT World Pharmaceuticals
Distinguished speakers include: Mr Fred Hassan, Pharmacia & Upjohn; Mr Robert Ingram, GlaxoWellcome Plc; Dr Anthony H Wild, Warner-Lambert Company; Professor Dr Hans Meyer, Bayer AG; Mr Henry Wendt, Unit of Donaldson Lufkin Jenrette Merchant Banking; Mr Eli Hurvitz, Teva Pharmaceutical Industries Ltd; Mr Gilles Pajot, IMS HEALTH.
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APRIL 29
Japanese Financial Markets
Can the Japanese economy survive financial restructuring? This one-day seminar will examine the current position of the Japanese economy, covering issues from corporate governance, state finances and labour market policy to structural reform and the real outlook for the future.
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CURRENCIES & MONEY

Mulling over G7

By Alan Beattie

Analysts are likely to spend the first half of this week mulling over events at Saturday's G7 meeting.

Discussions there focused on the need for all continents to play their part in stoking up world demand. This has been widely seen as a US call to Europe to kick-start domestic demand with looser policy. Since fiscal policy in euro-zone countries is constrained by the stability pact, many will see this as a hint that the European Central Bank should cut interest rates, a move already strongly urged by many euro-zone politicians.

Despite rumblings from Hans Tietmeyer at the G7 that the euro was not overvalued, this may precipitate a further weakening in the already battered currency. By the end of last week the euro was nearing the key $1.10 level against the dollar.

The dollar may also draw strength from Alan Greenspan's Humphrey-Hawkins testimony on monetary policy to the Senate banking committee on Thursday. Mr Greenspan is likely to say growth will slow in the US, and that there may be a downside risk from a correction in the equity markets.

This may provide relief to wary markets fearing that a continuation of above-trend economic growth may further widen the ballooning US current account deficit.

Markets will also have a chance to judge whether last week's weakening in the yen was a genuine change in policy or a short-term fudge to avoid US criticism at the G7 meeting. Bank of Japan and Ministry of Finance pronouncements will be scrutinised for signs that last week's Damascene conversion to the cause of a weaker yen may be reversed.

In the UK, the second estimate of 1998 fourth-quarter GDP is due on Tuesday. A large downward revision to the first estimate of 0.2 per cent growth could undermine sterling.

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

Feb 19	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3¼	3¼	3¼	3¼	3¼	-	3.00	3.00
week ago	3¼	3⅛	3¼	3	3	-	3.00	3.00
Switzerland	1¼	1¼	1¼	1¼	1¼	-	1.00	-
week ago	1¼	1¼	1¼	1¼	1¼	-	1.00	-
[illegible]								

INTERNATIONAL CURRENCY RATES

[illegible]

POUND IN NEW YORK

Feb 19	— Close —	— Prev. close —
£ spot	1.6225	[illegible]
1 mth	1.6217	1.6347
3 mth	1.6220	1.6340
1 yr	[illegible]	1.6369

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

OTHER CURRENCIES

Feb 19	£	$
Czech Rp	55.5114 - 55.6312	34.0770 - 34.1060
Hungary	368.724 - 369.277	226.350 - 226.550
Iran	4890.00 - 4897.00	3000.00 - 3000.00
Kuwait	0.4947 - 0.4955	[illegible]
Peru	5.5385 - 5.5371	[illegible]
Poland	6.2468 - 6.2622	3.8346 - 3.8566
Russia	37.4597 - 37.6323	22.9999 - 23.2160
U.A.E.	5.9597 - 5.9672	3.6726 - 3.6731

BANK RETURN

The Bank Return table can be found on page 27 in today's edition.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BASE LENDING RATES

[illegible]

BENCHMARK GOVERNMENT BONDS

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

EURO PRICES

EQUITIES

All eyes on French and German data

EUROPEAN OVERVIEW

By Florian Gimbel

European equity markets will pay more than usual attention to this week's economic figures, especially for any sign of continuing weakness in French and German growth.

The market has been unsettled by the steady stream of weak data in Europe, in particular last week's news that German gross domestic product had declined in the last quarter of 1998.

However, some analysts, such as Ian Scott at Lehman Brothers, say that the market has reacted too negatively to recent figures in Europe. He said equity markets have been pricing in more gloom than was justified by the fundamentals.

"The shift towards more cyclical stocks, such as consumer goods and media companies, will continue."

French economic data are likely to have a bearing on this week's equity markets, with analysts expecting consumer confidence to remain upbeat in spite of slower growth.

Household consumption of manufactured goods for January is likely to show a strong increase, in response to growing consumer confidence.

"This figure [out on Wednesday] will set the tone for the rest of the week. If consumption data comes out strong, equities will be buoyed ahead of Friday's gloomier figures," said James Cornish at BT Alex Brown.

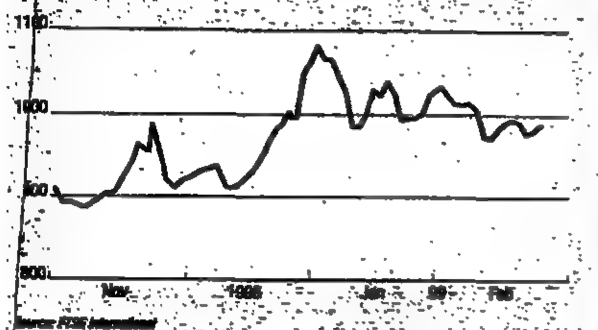
French unemployment and fourth quarter GDP figures, to be released on Friday, are both expected to come out weaker. This view has been supported by last Friday's industry data, as French industrial production fell 1.6 per cent in December from the previous month.

French equities will also take their cue from the much anticipated Air France initial public offering of a 20.7 per cent stake, with shares due to trade on the Paris stock market as of Monday.

On Tuesday last week, the government priced Air France shares at €14.2 for institutions and at €14 for individual investors. Analysts considered the offer "a lot cheaper than other airlines".

A rise of 6.1 per cent in L'Oréal's share price on Friday suggested that the company's earnings figures, due on Wednesday, will come out stronger than expected.

FTSE Eurotop 100



Source: FTSE International

FTSE Actuaries Share Indices — European series

Feb 19 National & Regional Markets	Euro index	Day's %	change points	Yield gross %	xd adj. ytd	Total rtn (Euro) €
FTSE Eurotop 300	1204.50	+0.50	+5.95	2.27	0.72	1241.09
FTSE Eurotop 100	2768.05	+0.61	+16.85	2.31	2.41	992.30
FTSE Eblock 100	989.70	+0.89	+8.75	2.12	0.60	1005.21
FTSE EuroMid	1183.43	+0.44	+5.13	2.81	1.22	1227.52
FTSE EuroMid Eblock	1193.80	+0.54	+6.47	2.32	1.38	1220.45
FTSE EuroMid Ex UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1249.76

[illegible]

THREE MONTH EUROMARK FUTURES (LIFFE); THREE MONTH EURO LIBOR FUTURES (LIFFE); THREE MONTH EURO LIBOR OPTIONS (LIFFE); FTSE EUROTOP 100 INDEX FUTURES (LIFFE); EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

[illegible]

OTHER INDICES

DJ Stoxx 50	[illegible]							
DJ Euro Stx 50	[illegible]							
MSCI Europe	[illegible]							

FTSE EUROTOP 300

[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

[illegible]

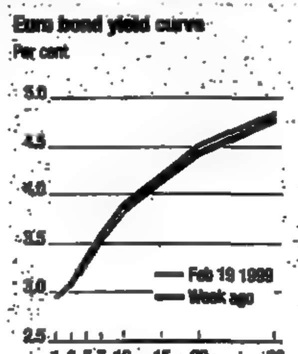
BONDS

INTEREST RATE SWAPS

Feb 19	Euro-€ Bid	Ask	£ Stlg Bid	Ask	SwFr Bid	Ask	US $ Bid	Ask	Yen Bid	Ask
1 year	3.05	3.08	5.26	5.29	1.61	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 year	3.11	[illegible]	5.17	5.20	1.74	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 year	3.27	3.31	5.18	5.22	1.97	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 year	3.44	3.48	5.18	5.23	2.17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

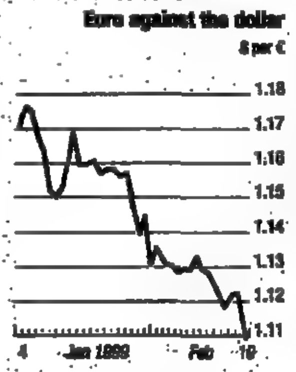
[illegible]

Euro bond yield curve



Source: Interactive Data/FT Information

Euro against the dollar



EURO-ZONE BONDS

[illegible]

Dexia	07/08	4.750	n/a	104.037	4.22	+0.02	+0.24	+0.42
HIGH YIELD								
Sebeck	04/07	10.125	B+	105.478	[illegible]	-0.06	+0.36	+4.72
Colt Telecom	11/07	8.875	n/a	[illegible]	7.92	+0.01	-0.52	+4.21
Impress Metal	05/07	9.875	B	102.775	9.38	-0.04	+1.58	+5.67
Remy Cointreau	07/06	10.000	B+	98.750	10.27	-0.16	-1.06	+6.79

Standard & Poor's ratings. Source: Interactive Data/FT Information.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Mkt cap£m	Last xd	City line
Allied Domecq	♣	468xd	2.9	Q25.33	1.5	4,889	2.11	2323
Bulmer (HP)		282½	—	15.0	1.5	140.7	11.1	2065
Burn Stewart		12½	-10.7	-	-	7.41	10/97	1518
Diageo	♣N	649½	0.2	Q19.8	1.5	23,271	5.10	2791
Glenmorangie A	†	712½	0.4	14.45	2.5	96.9	21.12	3287
B	†	827½	—	7.22	2.5	38.1	21.12	3288
Highland		297½	-.8	9.36	2.3	334.7	7.12	2880
5¼pc Cv Sb Bd		98¼	—	Q5¼%	-	48.1	11.1	2823
Kirin Y		692½xd	-7.2	Q3¼%	1.7	7,228	25.12	1119
Merrydown		28½	—	-	-	7.02	7/97	3352
Seagram C$		128⅝	-4.1	Q88c	-	8,944	28.8	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

SUPPORT SERVICES

PROPERTY - Continued

	Notes	Price	Wk% chnge	Div net	Div cov.	Mkt cap£m	Last xd	City line

SUPPORT SERVICES - Continued

	Notes	Price	Wk% chnge	Div net	Div cov.	Mkt cap£m	Last xd	City line

RETAILERS, FOOD

RETAILERS, GENERAL

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

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The FT web site

FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

Barclays International Funds

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Edmond de Rothschild Global SICAV (d)

Fidelity Funds (b)

Lloyds Bank Luxembourg

Schroder International Selection Fd - Contd.

Banque Colbert S.A.

Banque Ferrier Lullin (Lux) SA

Banque Internationale A Luxembourg

Henderson Independent Fund

International Bond Trust

INVESCO International Limited

InvestSud Investment Fund SICAV

Investissements Atlantiques SA

JP Morgan

Julius Baer Group

Scudder Global Opportunities Funds - Contd.

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 19 / €)

BELGIUM/LUX (Feb 19 / €)

FINLAND (Feb 19 / €)

FRANCE (Feb 19 / €)

GERMANY (Feb 19 / €)

IRELAND (Feb 19 / €)

ITALY (Feb 19 / €)

NETHERLANDS (Feb 19 / €)

PORTUGAL (Feb 19 / €)

SPAIN (Feb 19 / €)

EUROPE (NON-EMU)

CZECH REP (Feb 19 / Kronor)

DENMARK (Feb 19 / Kr)

GREECE (Feb 19 / Drachmas)

NORWAY (Feb 19 / Kroner)

POLAND (Feb 19 / Zloty)

SWEDEN (Feb 19 / Kronor)

SWITZERLAND (Feb 19 / Frs.)

TURKEY (Feb 19 / Tk Lira)

PACIFIC

JAPAN (Feb 19 / Yen)

AUSTRALIA (Feb 19 / Aus$)

HONG KONG (Feb 19 / H.K.$)

INDONESIA (Feb 19 / Rupiah)

MALAYSIA (Feb 19 / MYR)

NEW ZEALAND (Feb 19 / NZ $)

SINGAPORE (Feb 19 / S$)

SOUTH KOREA (Feb 19 / Won)

TAIWAN (Feb 19 / TW $)

THAILAND (Feb 19 / Baht)

AMERICAS

CANADA

TORONTO (Feb 19 / Can $)
4 pm close

MONTREAL (Feb 19 / Can $)
4 pm close

MEXICO (Feb 19 / Peso)
12.30 pm

AFRICA

SOUTH AFRICA (Feb 19 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 19 1999 US Dollar Index	% chg since 31/12/98	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg from 31/12/98	Gross Div. Yield	THURSDAY FEBRUARY 18 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	213.57	7.2	194.32	162.71	221.65	222.58	-3.0	3.31	209.46	190.11	158.64	214.93	218.22	218.09	163.89	208.12
Austria (21)	181.89	-1.8	164.89	137.90	188.76	185.76	3.8	2.01	180.78	164.06	136.92	183.88	183.58	253.73	165.27	300.07
Belgium (22)	398.46	-6.4	380.74	302.07	355.40	355.49	0.1	1.90	398.89	360.05	300.45	351.08	351.86	448.85	277.19	277.48
Brazil (23)	108.51	-20.8	98.00	80.38	109.51	374.03	25.8	6.19	109.77	96.00	80.11	109.53	369.92	289.34	69.22	231.50
Canada (113)	204.32	2.5	186.90	155.67	212.06	220.67	-0.5	1.80	209.58	184.73	154.15	208.84	219.32	248.78	158.94	220.86
Denmark (34)	458.31	-8.3	412.45	346.97	470.47	413.20	-4.5	1.74	457.40	415.24	346.50	468.44	412.28	537.33	420.12	480.84
Finland (25)	585.57	3.8	532.79	446.14	658.56	658.96	7.7	1.73	590.94	527.28	440.00	645.95	645.95	681.25	336.02	336.02
France (74)	319.13	-2.5	290.20	243.14	295.98	295.96	3.2	2.07	318.86	287.59	239.80	290.53	290.53	354.45	252.02	252.02
Germany (55)	253.63	-8.7	220.77	193.23	232.44	232.44	-4.5	1.42	258.94	225.02	198.12	234.82	234.82	325.81	226.95	244.87
Greece (38)	398.72	14.1	380.96	302.25	411.74	825.02	18.1	1.09	414.57	376.28	313.90	425.30	851.38	420.85	211.47	-
Hong Kong, China (55)	278.13	-12.1	245.70	205.87	280.36	288.74	-12.1	4.54	277.59	251.95	210.24	284.84	276.13	382.55	198.64	280.34
Indonesia (24)	49.23	-1.3	44.80	37.51	51.10	287.30	3.3	1.14	49.76	44.28	36.93	50.04	284.38	64.52	19.04	53.10
Ireland (14)	539.27	-2.2	490.86	410.95	559.37	530.37	3.5	1.86	558.29	498.57	407.70	552.30	532.30	605.65	398.15	461.31
Italy (59)	165.21	-7.7	150.31	125.87	215.32	215.32	-2.3	1.48	169.46	148.36	123.81	210.84	210.64	192.04	128.89	132.90
Japan (445)	94.75	-6.7	98.21	72.19	98.34	72.19	0.8	1.03	93.36	88.57	72.24	97.07	72.24	107.82	78.83	103.58
Mexico (29)	1219.42	8.8	1109.50	929.08	1265.59	18229.67	7.1	1.94	1198.99	1088.24	908.11	1230.30	12951.78	1733.73	787.15	1528.71
Netherlands (20)	475.24	-10.3	432.40	362.06	430.62	430.62	-5.0	2.20	475.02	431.14	359.75	425.75	425.75	592.73	394.02	494.73
New Zealand (14)	67.57	14.5	61.46	51.48	70.13	86.19	11.8	4.94	64.90	58.91	49.15	66.59	83.90	77.84	45.88	77.34
Norway (37)	222.88	1.8	202.79	169.81	231.32	238.03	4.3	2.28	224.81	204.04	170.27	230.06	237.81	357.71	181.86	301.05
Philippines (22)	84.25	-8.7	78.65	64.19	87.44	163.32	-8.7	1.00	84.40	76.60	63.92	86.80	162.77	106.96	42.48	90.57
Portugal (78)	247.86	-8.8	225.51	188.83	306.53	306.53	2.0	1.07	250.98	227.80	190.09	306.90	306.90	298.38	194.13	-
Singapore (40)	198.54	-8.2	180.65	151.27	206.06	196.16	-6.0	1.79	192.79	174.98	146.01	197.82	151.09	245.74	102.45	217.81
South Africa (35)	187.06	7.5	170.22	142.59	194.16	255.77	7.9	3.52	190.34	172.75	144.16	195.31	258.47	246.20	151.55	279.76
Spain (30)	378.10	-6.2	344.92	288.83	480.09	430.89	0.3	1.87	378.90	344.81	287.73	426.72	428.72	436.19	280.81	308.86
Sweden (48)	523.06	4.2	475.91	398.61	542.59	622.25	3.3	1.95	520.74	472.64	394.41	534.34	613.86	628.19	379.18	504.03
Switzerland (30)	385.95	-6.9	351.14	294.09	400.84	344.99	-2.3	1.34	392.35	356.11	297.17	402.60	346.45	441.65	307.73	373.99
Thailand (31)	21.24	-10.5	19.32	16.18	22.04	30.94	-7.5	2.91	21.34	19.37	16.16	21.90	30.86	33.84	8.15	31.58
United Kingdom (206)	381.72	0.9	347.31	290.82	396.17	347.31	3.0	2.79	384.95	349.39	291.58	395.09	349.39	401.84	307.86	383.37
USA (513)	511.24	0.9	465.15	389.50	580.59	511.24	0.9	1.39	510.26	463.14	386.48	523.80	510.26	527.72	390.12	420.39
Americas (724)	453.64	0.8	412.75	345.62	470.81	385.03	0.9	1.33	452.73	410.91	342.09	464.55	384.20	467.90	347.59	380.81
Europe (723)	347.70	-8.7	316.36	264.91	380.85	327.16	0.4	2.06	349.73	317.42	264.06	356.88	326.33	369.24	282.88	314.02
Eurobloc (342)	99.98	-0.6	90.06	75.41	98.18	99.18	-7.3	1.78	99.18	90.02	75.12	97.27	97.27	119.02	81.58	-
Nordic (143)	492.32	1.1	447.94	375.09	510.96	507.27	3.2	1.66	491.13	445.77	371.98	503.05	501.11	565.97	360.04	442.03
Pacific Basin (722)	102.76	-5.8	93.44	78.24	106.59	99.39	-0.2	1.58	103.17	93.64	78.14	105.86	99.41	117.88	82.88	113.36
Euro-Pacific (1444)	204.57	-4.0	186.12	155.85	212.32	173.09	0.3	1.94	205.89	186.08	155.79	211.06	172.79	221.79	186.00	187.06
North America (226)	490.49	0.9	446.25	373.67	509.06	491.17	0.8	1.30	489.50	444.29	370.75	502.29	490.17	506.43	374.92	407.58
Europe Ex. UK (522)	319.84	-6.9	290.65	243.35	331.74	307.02	-0.9	1.71	321.07	291.41	243.18	329.45	305.51	368.32	260.93	260.70
Europe Ex. Eurobloc (381)	98.49	-0.5	87.79	73.51	100.14	97.82	2.0	2.37	97.42	88.42	73.76	99.96	98.05	103.00	77.49	-
Europe Ex. UK Ex. Eurobloc (180)	94.84	-3.5	86.29	72.26	98.45	93.98	-0.1	1.46	98.01	87.14	72.72	98.92	94.08	109.21	75.16	-
Pacific Ex. Japan (279)	177.98	-2.1	161.94	135.60	184.72	181.04	-3.5	3.62	177.47	161.08	134.41	182.10	100.83	215.04	128.26	204.18
World Ex. Eurobloc (1921)	104.45	-8.3	95.03	79.58	108.40	103.89	1.0	1.58	104.57	94.01	79.20	107.30	103.77	108.05	83.09	-
World Ex. US (1658)	204.13	-8.8	185.79	155.53	211.88	178.03	0.4	1.97	205.16	185.21	155.39	210.51	177.66	227.81	185.05	200.29
World Ex. UK (2062)	285.57	-1.9	258.92	225.19	308.76	287.13	0.4	1.46	286.70	259.38	223.96	303.42	285.38	311.48	236.11	282.44
World Ex. Japan (1818)	409.49	-0.8	369.86	300.65	421.82	400.21	0.7	1.66	409.73	368.16	308.65	417.36	388.31	427.90	320.58	354.78
The World Index (2263)	302.88	-1.3	275.67	230.84	314.45	274.49	0.7	1.80	303.27	275.95	229.77	311.30	273.95	318.51	242.38	270.07

Emerging markets:

IFC Investable Indices

Dollar terms

Feb 19

Market

Latin America

Argentina

Brazil

Chile

Colombia

Mexico

Peru

Venezuela

East Asia

China

India

Indonesia

Korea

Malaysia

Pakistan

Philippines

Sri Lanka

Taiwan, China

Thailand

Europe

Czech Rep

Greece

Hungary

Poland

Portugal

Russia

Slovakia

Turkey

Mideast/Africa

Egypt

Israel

Jordan

Morocco

S Africa

Zimbabwe

Regions

Composite

Latin America

Asia

EMEA

Europe

Eastn Europe

ME & Africa

Comp + Malay

Asia + Malay

NEW YORK STOCK EXCHANGE PRICES

4 pm close February 19

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. [illegible]

Dealings suspended.

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هذا من الأصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 19	Feb 18	Feb 17	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9339.95	9298.63	9195.47	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	105.35	105.31	105.34	107.17 (8/12/98)	104.42 (11/5/98)	107.17 (8/12/98)	54.99 (1/10/81)
Transport	3134.51	3122.07	3152.18	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	295.38	295.28	291.41	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high (a) (9368.48) Low (a) (9145.09) (Theoretical‡)
Day's high 9395.87(9308.79) Low 9267.71 (9180.94) (Actual‡)

Standard and Poors	Feb 19	Feb 18	Feb 17	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1247.35	1237.28	1224.03	1279.64 (29/1/99)	927.69 (9/1/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials‡	1492.53	1480.11	1475.80	1551.85 (29/1/99)	1077.40 (9/1/98)	1551.85 (29/1/99)	3.52 (30/6/32)
Financial‡	132.71	132.38	130.11	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	586.66	586.48	580.35	611.08 (8/1/99)	477.20 (8/10/98)	611.08 (8/1/99)	4.64 (25/4/42)
Amex Comp	692.57	688.82	686.65	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	524.70 (18/7/98)
NASDAQ Cmp	2283.45	2280.05	2248.91	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	392.30	391.09	388.54	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.38 (7/12/89)

RATIOS

	Feb 12	Feb 5	Jan 29	Year ago
Dow Jones Ind. Div. Yield	1.88	1.85	1.84	1.86
	Feb 17	Feb 10	Feb 3	Year ago
S & P Ind. Div. yield	1.19	1.15	1.10	1.40
S & P Ind. P/E ratio	37.72	38.00	39.55	27.24

US DATA

JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1238.30	1243.50	+8.30	1262.00	1234.70	108,926	378,907
Jun	1251.00	1255.20	+8.70	1262.10	1236.50	6,321	22,370
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Mar	14150.0	14110.0	+20.0	14190.0	14040.0	18,541	192,239
Jun	14050.0	13980.0	-10.0	14080.0	13960.0	1,037	39,867

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	4098.0	4105.0	+72.0	4110.0	4013.0	75,204	113,354
Mar	4074.0	4112.5	+72.8	4111.0	4026.0	23,617	68,526
DAX							
Mar	4880.0	4844.0	-35.0	4926.5	4777.0	50,189	212,491
Jun	4904.5	4870.0	-37.5	4955.0	4820.0	5,484	74,956

AEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	717.75	725.00	+8.25	726.75	713.50	14,998	115,581
Mar	718.75	723.75	+8.75	724.25	713.25	3,214	11,930
IBEX							
Mar	7036.0	6945.0	-46.0	7043.0	6891.0	24,578	129,621
Jun	6961.0	6886.0	-27.0	6961.0	6885.0	261	4,263

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Feb 19	Feb 18	Feb 17	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General	16664.11	16381.43	16272.89	23465.58 23/3/98	12369.10 10/9/98	4.15	12.1
Australia	All Ordinaries	2884.3	2882.5	2882.2	2904.00 4/2/99	2459.20 1/9/98	3.65	22.4
	All Mining	585.8	590.0	578.7	713.10 23/4/98	469.80 31/8/98		
Austria	ATX Index	1157.69	1140.65	1137.14	1699.58 26/5/98	992.66 1/10/98	2.11	11.5
Belgium	BEL20	3416.30	3382.28	3375.08	3681.92 8/1/99	2257.78 10/1/98	1.55	24.6
India	BSE Sens.	3354.92	3351.05	3306.42	4280.96 21/4/98	2764.16 20/10/98	na	na
	S & P CNX 500	683.20	683.01	681.42	916.82 21/4/98	557.98 20/10/98		
Indonesia	Jakarta Comp.	404.01	403.41	397.97	554.19 2/3/98	256.83 21/9/98	2.47	19.9
Ireland	ISEQ Overall	5299.53	5180.97	5240.04	5471.81 21/4/98	3745.11 8/10/98	1.94	18.9
Israel	Tel Aviv 100	(c)	298.65	295.95	337.43 8/6/98	240.19 8/10/98	na	na
Portugal	BVL 30	4695.27	4683.09	4603.53	6178.88 22/4/98	3569.98 2/10/98	2.04	27.3
	PSI 20	11270.82	11296.40	11325.51	14263.00 22/4/98	8114.81 2/10/98		
Russia	RTS	70.22	66.52	65.79	411.81 5/1/98	38.59 5/10/98	na	na
Singapore	SES All-S'pore	370.87	380.70	(c)	437.98 19/3/98	253.29 4/9/98	2.34	20.8
	Straits Times	1374.31	1335.01	(c)	1888.75 19/3/98	805.04 4/9/98		

Ended higher but trade was thin ahead of weekend G7 meeting and Brazilian economic concerns.

Stream of better than expected results and Wall Street's overnight gains sent market higher.

Pushed higher with Bank Austria extending its advance to 28 per cent in five days.

Petrochemicals issues continued to outperform on expectations that next week's budget would hold some promise for sector.

Gains in Telkom and Indah Kiat helped market to move ahead.

Pushed ahead strongly in surging volumes on a fresh wave of foreign buying.

Market sharply higher as foreign funds bought index-linked stocks on hopes of strong trade data, due over weekend.

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 19

AMEX

4 pm close February 19

EASDAQ

FT GUIDE TO THE WEEK

MONDAY 22

Diverse agenda

European Union foreign ministers face a diverse agenda, including relations with South Africa, Japan, Indonesia and the smaller republics of the former Soviet Union, when they meet as the EU's general affairs council in Luxembourg. Providing the talks are not overtaken by events in Kosovo or further repercussions from the Ocalan affair, a key issue will be the proposed trade and co-operation agreement with South Africa. Spain is unhappy with the deal proposed by the European Commission after three and half years of negotiations because of its protracted arrangements for phasing out the terms "sherry" and "port" for South African fortified wines.

Farmers protest

Up to 30,000 farmers will protest in Brussels as European Union farm ministers start talks aimed at agreeing a deal on farm reform. Germany, holder of the EU's rotating presidency, wants to bring more than 18 months of negotiations to an outline conclusion by the end of the week. France is threatening to block a deal because of its concerns over other areas of reform, including regional aid, being considered by the EU. The deal on farm reform, whether agreed this week or later, looks likely to be much more radical than expected at the start of the year. Member states are set to back proposals that would mean that direct aid to farmers would decline from the middle of the decade.
The aid compensates for cuts in farm prices.

Asian review

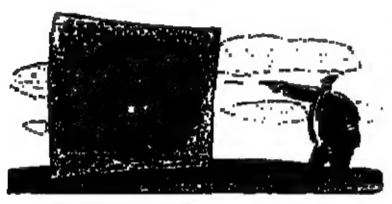
Lawrence Summers, deputy US Treasury secretary, leads a US delegation on its second day of visits to five Asian countries for talks about the economic situation. The delegation is visiting, in order, Singapore, Indonesia, China, South Korea and Japan.

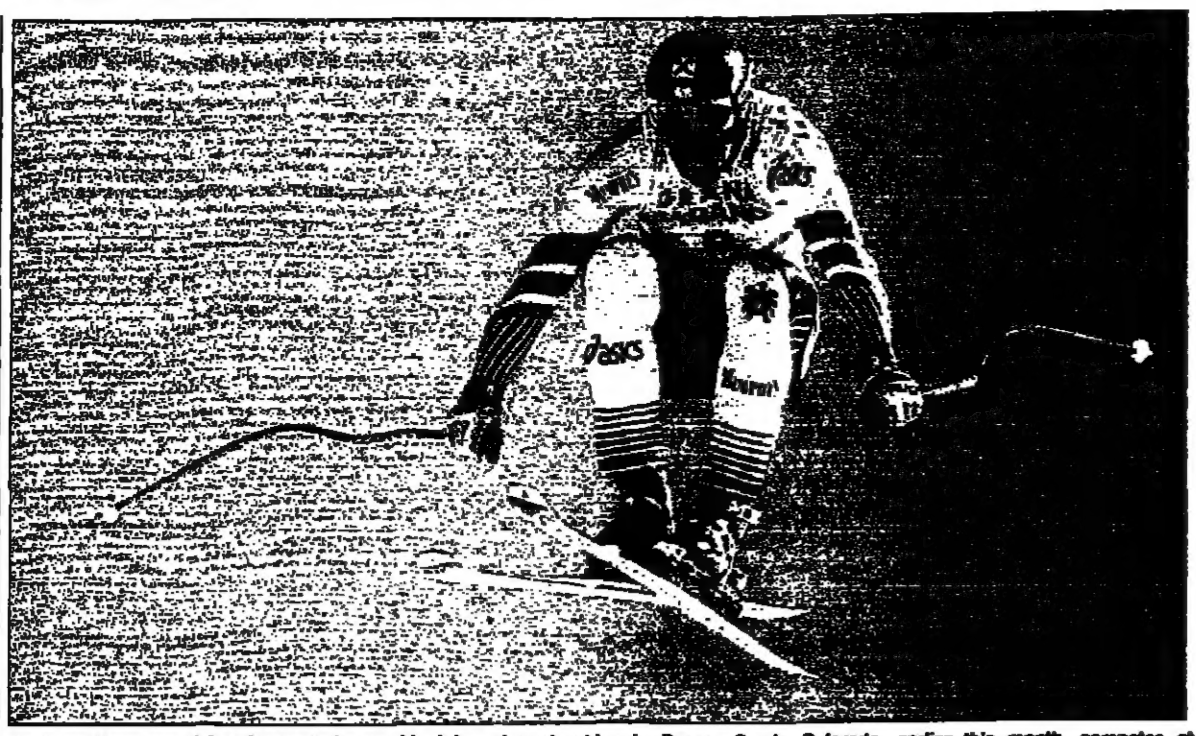
Senate returns

The US Senate reconvenes in Washington. The upper chamber of the US federal legislature went into recess for a week after voting to acquit President Bill Clinton of two impeachment articles on February 12.

Gun control

A United Nations group of experts meets in Geneva this week to discuss international measures to control the illicit trade in small arms. The 23 experts are preparing a report to the UN General Assembly this autumn, which is expected to recommend the convening of an international conference on the issue within the next two years. Control measures under consideration include the licensing of authorised arms dealers, the marking of small arms as a way of tracing illicit flows and the identification of arms traders breaking UN or government embargoes.





Austrian Hermann Maier, here at the world alpine championships in Beaver Creek, Colorado, earlier this month, competes at Ofterschwang, Germany, on Saturday AP

Territorial pledge

The governments of Bulgaria and Macedonia are scheduled to sign a joint declaration pledging that they have no territorial claims against one another.

Middle East move

Sergio Marchi, Canada's international trade minister, leads a trade delegation to Saudi Arabia, the United Arab Emirates, the West Bank and Israel. While in the West Bank, Marchi is expected to open the Canadian representative office in Ramallah.

Holidays

Cyprus, Greece, Ecuador.

TUESDAY 23

Kosovo consultation

The Swedish Ministry of Foreign Affairs hosts a Consultative Meeting on Humanitarian Support and Community Improvement in Kosovo in Stockholm. It is expected to focus on promoting peace efforts, reconstruction of the economy and co-ordination of international support. Countries represented are expected to include European Union members, Canada, Russia, Switzerland, Japan and the US.

Jobs for the boys

The Organisation for Economic Co-operation and Development holds a conference on youth employment in Washington. Among those expected to address the meeting are Donald Johnston, the OECD secretary-general, Alexis Herman, US labour secretary, and Richard Riley, US education secretary.

Refugee chief's tour

Sadako Ogata, United Nations high commissioner for refugees, visits Guinea (to February 25) at the start of a three-nation west African tour that will also take her to Liberia and Ivory Coast.

FT Survey

Nigeria.

Holiday

Ecuador.

WEDNESDAY 24

Corruption crackdown

Al Gore, US vice-president, chairs the first global conference devoted to fighting corruption in all its aspects, to be attended by representatives of 79 governments and scores of international and non-governmental organisations. The US hopes the three-day conference in Washington will institute a system of "peer review" to hold countries to their anti-bribery commitments. It plans to take the recommendations forward for approval at the next Group of Eight summit in Cologne, Germany, in June and the United Nations general assembly next autumn.

EU mission to Turkey

Hans van den Broek, the European Union's central and eastern Europe commissioner, visits Turkey. He is likely to hold discussions on political stability, the recent establishment of an interim government ahead of April's general elections, regional security and the Turkish application for EU membership.

Computer worries

Worried about what the European Union as a body should be doing to tackle the millennium computer bug, the European Parliament will hear a report during its two-day plenary session calling for an information campaign and increased international co-operation in sectors such as air traffic control and the nuclear industry. Other subjects up for debate include proposals to extend the working time

legislation to the transport industry and a plan for a regional management system for the fishing industry, aimed at giving fishermen a greater say in decision-making.

Space and time

Officials from Nasa, the US space agency, hold talks in Moscow on the international space station with the aim of sorting out delays to the programme (to February 25).

Holiday

Estonia.

THURSDAY 25

Help for Cambodia

The two-day meeting of Cambodia aid donors starts in Tokyo. Samdech Hun Sen, Cambodia's prime minister, will deliver a speech on his efforts to seek economic assistance from the international community.
Representatives from 16 countries and officials of the World Bank, International Monetary Fund and Asian Development Bank will discuss measures to help rebuild Cambodia's economy.

Responsible action

German president Roman Herzog hosts the inaugural session of the Council on European Responsibilities (Coeur) in Berlin, to be addressed by Vaclav Havel, president of the Czech Republic, Bronislaw Geremek, Polish foreign minister, Jean-Claude Trichet, governor of the Bank of France, and Romano Prodi, former Italian prime minister. Coeur promotes Europe as a force for peace, stability, cultural values and economic progress.

Straight up

The annual "vertical marathon" up the Empire State Building in New York takes place. Runners climb 1,576 steps from the lobby to the observation desk on the 86th floor.

Human rights tool

The US Country Report on Human Rights (1998) is scheduled to be released to Congress. In 1998 the report was described by John Shattuck, assistant secretary for democracy, as "the tool to ensure that human rights concerns are taken into account in all US relationships; to alert us to dangerous trends; to spotlight abuses; and to provide a yardstick to show progress".

US bank reform

The US Senate banking committee is expected to review a new bill to reform archaic financial laws. Congress has tried to reform the Depression-era laws, which demand separation in the financial services sector, for more than 20 years.

Holiday

Kuwait.

FRIDAY 26

Extra summit

The European Union's 15 heads of government meet for an informal summit near Bonn in an attempt to progress with the "Agenda 2000" negotiations on reform of the EU's budget, its farm policy and its aid for poorer regions. While the thorniest issues will remain to be solved at next month's special summit in Berlin, diplomats hope the Bonn meeting will narrow differences and give the leaders greater insight into each other's problems.

Green get-together

The second congress of the European Federation of Green Parties is held in Paris. The Greens would like to see the EU cut carbon emissions by 50 per cent by 2025, phase out nuclear energy and give more powers to the European Parliament.

Iranians' local vote

Municipal elections open in Iran, the first since the Islamic revolution in 1979. Local councils will be given more powers, in a move seen by Iranian reformers as a big step towards greater democracy.

FT Surveys

Burgundy; Indian Infrastructure; European Economy.

Holiday

Kuwait.

SATURDAY 27

Nigerian election

Nigeria is due to hold its long-promised presidential election. The election is the climax of the process that will return Nigeria, Africa's most populous nation, to civilian rule by May.

Regal business

Crown Prince Philippe of Belgium visits Cairo with a group of businessmen to explore investment opportunities in Egypt (to March 3).

FT Survey

Guide to Peps and Isas (UK editions only).

Holiday

Kuwait.

SUNDAY 28

Macedonian inspection

Jacques Chirac, French president, travels to Macedonia to meet government leaders and visit French troops stationed there for possible duties in neighbouring Kosovo.

Olympic report

The report prepared by a panel of US lawyers into allegations of bribery by the organisers of the Salt Lake City Winter Olympics is scheduled to be released. The panel is headed by former US senator George Mitchell. Salt Lake City officials are alleged to have offered skiing holidays, guns and college sponsorship to IOC delegates.

Royal Vietnam visit

The Duke of York, Prince Andrew, begins a visit to Vietnam lasting until March 4. He will visit Hanoi and Ho Chi Minh City for discussions on bilateral trade, investment and social aid projects.

Compiled by Roger Beale
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ECONOMIC DIARY

Other economic news

Tuesday: UK fourth quarter GDP is believed to have been revised down from 0.2 per cent to 0.1 per cent, following much weaker than expected manufacturing figures. Alan Greenspan, chairman of the US Federal Reserve, testifies to the Senate banking committee. The Fed's new forecasts are likely to show GDP slowing to 2.5 per cent over the year to Q4 1999, while inflation should be 2 per cent at the same time, says HSBC. US consumer confidence should have risen a little further.
Thursday: Japanese GDP is believed to have risen 0.5 per cent in the fourth quarter. A monthly industrial trends survey in the UK should show an improvement in output expectations.
Friday: The preliminary estimate for fourth quarter US GDP should show an annual increase of 5.7 per cent. French unemployment is thought to have declined by 15,000 in January, similar to the average monthly decline in the last three months. This should be sufficient to reduce the unemployment rate from 11.5 to 11.4 per cent.

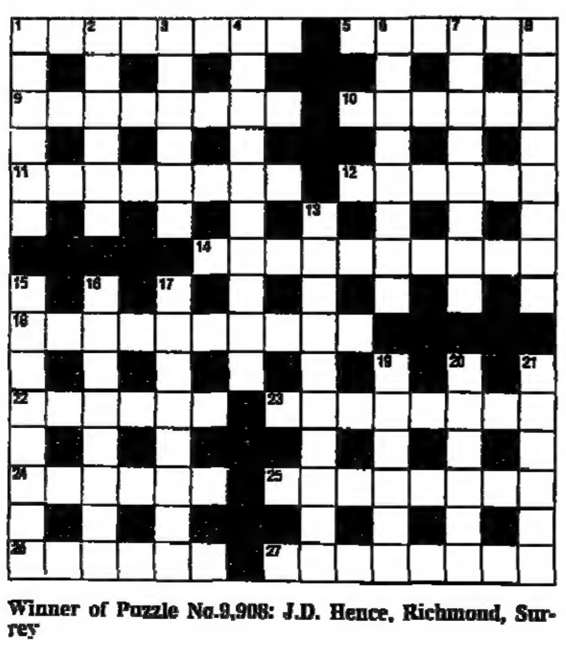
Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Sweden	Dec current account	Kr4bn	Kr6.3bn
Feb 22	Canada	Dec retail sales*†	0.4%	1.1%
	Hungary	Y/D current account balance		-$1.604bn
	Hungary	Y/D trade balance		-$1.822bn
	US	Jan treasury balance	$65bn	-$5.4bn
	Mexico	Jan monetary base		43.5%
Tues	Australia	Q4 company profits	1.8%	-2.2%
Feb 23	Norway	Jan retail sales, preliminary ***†		1.5%
	Norway	Dec current account	-NKr3bn	-NKr3.2bn
	UK	Q4 prov GDP***	0.1%	0.2%
	UK	Q4 prov GDP**	1.5%	1.6%
	UK	Dec global visible trade	-£2bn	-£2.2bn
	UK	Jan ex-EU visible trade	-£1.6bn	-£1.8bn
	EMU	Dec producer price index**	-2.3%	-2.3%
	US	BTM-Schroders Feb 20		0.1%
	US	Feb consumer confidence	129	127.6
	US	Redbook Feb 20		1.3%
	Japan	Jan BoJ corporate services price**		-0.9%
Weds	Japan	Jan supermarket sales**		-2.2%
Feb 24	Japan	Jan department store sales**		-5.5%
	France	Jan household consumption*†	1.0%	-0.4%
	Sweden	Dec industrial orders		1.5%
	Spain	Q4 GDP***	0.8%	0.9%
	Spain	Q4 GDP**	3.6%	3.8%
	Italy	Jan consumer price index**	1.4%	1.5%
Thurs	Singapore	Q4 GDP**		-0.7%
Feb 25	Singapore	1998 GDP**		7.8%
	France	Feb industrial survey	-11	-11
	N'lands	Q4 GDP preliminary***†	1.0%	0.4%
	N'lands	Q4 GDP preliminary**	2.8%	3.2%
	Sweden	Dec industrial production**	1.5%	1.6%
	Norway	Feb unemployment rate	2.6%	2.6%
	US	Jan existing home sales	4.93m	5.03m
	US	M2-week ended Feb 15	$12bn	-$100m
	Japan	Jan industrial production†	0.8%	1.3%
	Japan	Jan retail sales**	-2.5%	-4.4%
Fri	Australia	Jan motor vehicle registrations	0%	-1.8%
Feb 26	US	Q4 GDP preliminary	6.0%	5.6%
	US	Feb agriculture prices		-1.0%
	France	Jan unemployment rate	11.5%	11.5%
	France	Q4 preliminary GDP***	0.3%	0.5%
	France	Q4 preliminary GDP**	2.4%	2.9%
During the week...				
	Germany	Jan import prices**	-5.8%	-6.0%
	N'lands	Dec consumer spending**		4.4%
	N'lands	Feb consumer confidence†		7
	Swit'lnd	Jan trade excl. precious metals		-SFr832m
	N'lands	Dec trade balance		NLG1.7bn
	Japan	Feb trade balance		Y224bn

*month on month, **year on year, ***Q/Q, †seasonally adjusted – Statistics, courtesy Standard & Poor's MMS.

ACROSS
1 An example of how one golfer differs from another? (8)
5 Walrus left with a mouthful (6)
9, 27 It's not simple curiosity in money-making (8)
10 Where one is likely to find a rink-manager? (6)
11 They provide revolutionary means of getting power (8)
12 Very nervous near the brink (2,4)
14 Splendid work takes time; it lacks spoken dialogue (5,5)
18 Jolted at airborne instability (10)
22 Doesn't break open the port (6)
23 Banter becomes hurtful in time (8)
24 A fighting man, I go to join up (6)
25 Unexpected good fortune lessens the blow (8)
26 They put things on scales (6)
27 See 9

DOWN
1 Egg – how nice it may be scrambled (6)
2 Gloomy doctor put in a sensitive spot (6)
3 A Spaniard is taken for a Greek (6)
4 Promise actor scene in new production (10)
6 Switch positions occasionally (3,3,2)
7 No doubt many yarns have been spun about them (8)
8 Chap from Belgium is a loyal subject (8)
13 Local appreciation for something new (10)
15 Drinking song going around America (8)
16 Males score in intellect (8)
17 The magnificence of new garden city (6)
19 Play – but cheat (6)
20 Friend tucked in, showing relish (6)
21 Not a big shot in the gunnery world (6)



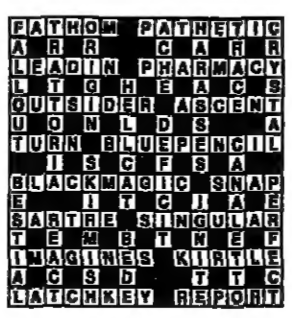
Winner of Puzzle No.9,908: J.D. Hence, Richmond, Surrey

MONDAY PRIZE CROSSWORD
No.9,920 Set by DANTE

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday March 4, marked Monday Crossword 9,920 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday March 8. Please allow 28 days for delivery of prizes.

Name
Address

Solution 9,908



JOTTER PAD